(9)

No. 01-408-CFX Title: The Holmes Group, Inc., Petitioner
v.
Vornado Air Circulation Systems, Inc.

Docketed: September 7, 2001 Court: United States Court of Appeals for the Federal Circuit

Entry	Date	Proceedings and Orders
	Sep 4 2001	Petition for writ of certiorari filed. (Response due October 7, 2001)
	Oct 9 2001	Brief of respondent Vornado Air Circulation in opposition filed.
	Oct 24 2001	DISTRIBUTED for Conference of November 9, 2001
	Nov 6 2001	Reply brief of petitioner The Holmes Group, Inc. filed.
	Nov 8 2001	Petition GRANTED. limited to Questions 1 and 3 presented by the petition. SET FOR ARGUMENT March 19, 2002. **********
	Dec 21 2001	Order extending time to file the joint appendix and petitioner's brief on the merits to and including January 4, 2002.
	Jan 3 2002	Joint appendix filed.
	Jan 4 2002	Brief of petitioner The Holmes Group, Inc. filed.
	Jan 23 2002	CIRCULATED.
	Feb 11 2002	Brief of respondent Vornado Air Circulation Systems, Inc. filed.
	Feb 11 2002	Brief amicus curiae of Patent, Trademark & Copyright Sect. of DC Bar Association filed.
	Feb 28 2002	Record filed.
	Mar 5 2002	Record filed.
	Mar 12 2002	Reply brief of petitioner The Holmes Group, Inc. filed.
	Mar 19 2002	ARGUED.

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No. 01-

IN THE

Supreme Court of the United States

THE HOLMES GROUP, INC.,

Petitioner,

—against—

VORNADO AIR CIRCULATION SYSTEMS, INC.,

Respondent.

ON PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

PETITION FOR WRIT OF CERTIORARI

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QUESTIONS PRESENTED

Petitioner commenced this civil action in the U.S. District Court for the District of Kansas. Petitioner's complaint sought injunctive, monetary, and declaratory relief under 15 U.S.C. § 1125(a) and applicable state law. In March 2000, the District Court granted summary judgment in favor of Petitioner on its First Cause of Action, holding that Petitioner's "sale of its fan and heater products does not infringe any valid or enforceable 'trade dress' claimed by [Respondent] under 15 U.S.C. §§ 1051 et seq." Final judgment was then entered in favor of Petitioner pursuant to Rule 54(b) of the Federal Rules of Civil Procedure.

Respondent timely filed a Notice of Appeal from the District Court's judgment; however, instead of appealing to the Court of Appeals for the Tenth Circuit, Respondent directed its appeal to the Court of Appeals for the Federal Circuit. Respondent contended that the Federal Circuit had appellate jurisdiction under 28 U.S.C. § 1295(a)(1), not based on anything contained or pleaded in Petitioner's complaint or decided by the District Court, but based on Respondent's having included, in its Answer, a counterclaim against Petitioner for alleged patent infringement. The Respondent's counterclaim was extraneous to the District Court's jurisdiction to hear Petitioner's suit and formed no part of the judgment from which Respondent had appealed. In its brief filed with the Court of Appeals for the Federal Circuit, Petitioner urged that Respondent's appeal be dismissed for lack of appellate jurisdiction or, alternatively, that the appeal be transferred to the Tenth Circuit pursuant to 28 U.S.C. § 1631.

On June 5, 2001, the Court of Appeals for the Federal Circuit vacated the District Court's judgment and remanded for further proceedings. In direct conflict with decisions of this Court, the Federal Circuit has taken the position that a plaintiff's well-pleaded complaint does not determine whether an action

"arises under" federal patent law for purposes of 28 U.S.C. § 1295(a)(1) and 28 U.S.C. § 1338(a). Rather, in the Federal Circuit's view, the answer of a defendant must be consulted to determine whether an action "arises under" federal patent law; and if a defendant's answer includes a patent law counterclaim *against* the plaintiff, then according to the Federal Circuit, the defendant's pleading purportedly operates to change the basis of a district court's jurisdiction and to cut off regional Circuit jurisdiction over the plaintiff's suit.

The Federal Circuit's interpretation of 28 U.S.C. § 1295(a)(1) purports to displace vast sectors of regional Circuit jurisdiction and to vest in defendants, rather than plaintiffs, control over what appellate court will determine, and what law may govern, broad categories of claims arising under copyright, trademark, antitrust, contract, defamation, and other non-patent laws.

The questions presented are:

1. Does 28 U.S.C. § 1295(a)(1) divest regional Circuits of jurisdiction to decide appeals of final decisions of district courts in cases wherein the well-pleaded complaint of the prevailing plaintiff does not allege any claim arising under federal patent law?
2. Does 28 U.S.C. § 1295(a)(1) divest regional Circuits of jurisdiction to decide appeals of final decisions of non-patent claims, where judgment is entered pursuant to Fed. R. Civ. P. 54(b) and is not based, in whole or in part, on 28 U.S.C. § 1338(a)?
3. Did the Court of Appeals for the Federal Circuit err in concluding that this action "arises under" federal patent law for purposes of 28 U.S.C. §§ 1295(a)(1) and 1338(a)?

CORPORATE DISCLOSURE STATEMENT

Petitioner hereby identifies Berkshire Partners L.L.C. as a parent corporation owing 10% or more of Petitioner's stock. No publicly held company owns 10% or more of the stock of the Petitioner.

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The Holmes Group, Inc. ("Holmes") petitions for a writ of certiorari to review the judgment of the United States Court of Appeals for the Federal Circuit entered in this action on June 5, 2001.

OPINIONS BELOW

The opinion of the Court of Appeals is unreported and appears in Appendix A hereto. The opinion of the District Court is reported at 93 F. Supp. 2d 1140 and appears in Appendix B hereto. The final judgment of the District Court appears in Appendix C hereto.

BASIS OF JURISDICTION

The judgment of the Court of Appeals was entered on June 5, 2001. No petition for rehearing was filed. This Court's jurisdiction is invoked under 28 U.S.C. § 1254(1).

The District Court had jurisdiction to hear Petitioner's claims under 15 U.S.C. § 1121 and 28 U.S.C. §§ 1331, 1332(a), and 1367. In the decision below, the Court of Appeals for the Federal Circuit purported to exercise appellate jurisdiction under 28 U.S.C. § 1295(a)(1).

STATUTORY PROVISIONS INVOLVED

This case involves the scope of Federal Circuit appellate jurisdiction under 28 U.S.C. § 1295(a)(1), which in turn is governed by the "well-pleaded complaint rule" of 28 U.S.C. § 1338(a). The text of these statutory provisions is reprinted in Appendix D hereto.

STATEMENT OF THE CASE

Petitioner manufactures and sells HOLMES® brand consumer household products, including household fan and heater fan products. Respondent is a competitor of Petitioner in the U.S. fan and heater business. Both parties manufacture and sell axial-flow fan and heater fan products whose outlet grill structures incorporate a series of arcuate or curved vanes for directing air flow.

In the case of *Vornado Air Circulation Sys., Inc.* v. *Duracraft Corp.*, 58 F.3d 1498 (10th Cir. 1995), *cert. denied*, 516 U.S. 1067 (1996) ("*Vornado I*"), the Court of Appeals for the Tenth Circuit held that the "arcuate grill vane structure" incorporated in certain fan and heater products sold by Respondent "cannot be protected as trade dress" under 15 U.S.C. § 1125(a). 58 F.3d at 1510. Despite this holding, the Respondent, in late 1999, publicly accused Petitioner of "infringing" the exact same alleged "trade dress" which had been held invalid and unprotectable in *Vornado I*.

Petitioner commenced this action on December 8, 1999, in the U.S. District Court for the District Court of Kansas. Petitioner's complaint pleaded seven causes of action against Respondent: (1) declaratory judgment of non-liability under 15 U.S.C. § 1125(a); (2) violation of Mass. Gen. L. ch. 93A, §§ 2 and 11; (3) violation of 15 U.S.C. § 1125(a); (4) tortious interference with prospective economic advantage; (5) defamation; (6) unfair competition; and (7) injurious falsehood. Petitioner's complaint invoked jurisdiction under "15 U.S.C. § 1121, 28 U.S.C. §§ 1331 and 1332(a), and the principles of supplemental jurisdiction codified in 28 U.S.C. § 1367."

On December 17, 1999, Petitioner moved for issuance of a preliminary injunction restraining Respondent from falsely claiming, in commercial advertising or promotion, that HOLMES® products sold by Petitioner purportedly infringed "trade dress" rights claimed by Respondent under 15 U.S.C. § 1125(a). On January 4, 2000, the District Court issued an "Order Granting Preliminary Injunction" under which Respondent was "enjoined and restrained from making or permitting to be made, in commercial advertising or in the marketplace, directly or indirectly, any claim . . . to the effect that Holmes or any Holmes product infringes any ostensible Vornado trade dress rights in spiral grill designs. . . ."[1]

On January 7, 2000, Petitioner moved for summary judgment on its First Cause of Action seeking a declaratory judgment that its sale of HOLMES® products does not infringe any valid or enforceable "trade dress" rights claimed by Respondent under 15 U.S.C. § 1125(a). Petitioner's motion was granted by Order dated March 8, 2000 (see Appendix B). The District Court concluded that the final judgment of invalidity rendered in the *Vornado I* case, *Vornado Air Circulation Sys., Inc. v. Duracraft Corp.*, 58 F.3d 1498 (10th Cir. 1995), *cert. denied*, 516 U.S. 1067

1. In addition to seeking preliminary injunctive relief against false advertising by Respondent in the marketplace, Petitioner sought to restrain Respondent from attempting to re-litigate its purported "trade dress" claim in proceedings initiated by Respondent before the International Trade Commission ("ITC"). The District Court denied that aspect of Petitioner's motion for preliminary injunctive relief; however, after the District Court granted summary judgment in favor of Petitioner, as described *infra*, Respondent moved for voluntary dismissal of a complaint it had lodged with the ITC. The ITC proceedings were terminated in June 2000.

(1996), collaterally estopped Respondent from re-litigating the validity of the exact same "trade dress" claim which had been the subject of that earlier case:

> [T]his Court previously entered a valid and final judgment in *Vornado I* and the Tenth Circuit law upon which that decision was based has not been changed. Under principles of collateral estoppel, the ruling in *Vornado I* bars Vornado from re-litigating the same issue in this action. Accordingly, Holmes is entitled as a matter of law to judgment declaring that it has not infringed Vornado's asserted trade dress rights.

93 F. Supp. 2d at 1144-45 (Appendix B at 13a).

The District Court noted Respondent's argument that the Federal Circuit, rather than the Tenth Circuit, assertedly would have appellate jurisdiction over this case based on the contents of an Answer which Respondent had served in response to Petitioner's complaint,[2] but concluded: "This court does not need to stray into this procedural thicket to decide the issue before it. Regardless of which court of Appeals would have jurisdiction, the court determines the

2. In an Answer served December 30, 1999, Respondent asserted a counterclaim against Petitioner which alleged that one of the products accused of "trade dress" infringement assertedly infringed a patent owned by Respondent. Based on this answer and counterclaim, the District Court noted that "it is possible (although not entirely certain) that any appeal of this court's judgment will be to the Federal Circuit," 93 F. Supp. 2d at 1143, but concluded that "[r]egardless of which Court of Appeals would have jurisdiction, the court determines that the principles of collateral estoppel should be applied in this case." *Id.* at 1143 n.2.

principles of collateral estoppel should be applied in this case." *Id.* at 1143 n.2. On the parties' joint motion, the District Court entered a Final Judgment under Fed. R. Civ. P. 54(b) which provided in pertinent part (see Appendix C):

> Holmes is entitled as a matter of law to judgment declaring that it has not infringed Vornado's asserted trade dress rights [Doc. 72, p. 1]; Plaintiff Holmes' Motion for Summary Judgment on its first cause of action is hereby GRANTED [Doc. 72, p. 12]; and Final Judgment is hereby expressly entered in favor of Holmes and against Vornado on Holmes' first cause of action seeking a declaratory judgment holding that Holmes' sale of its fan and heater products does not infringe any valid or enforceable 'trade dress' claimed by defendant Vornado under 15 U.S.C. §§ 1051 et seq. [Doc. 72, p. 1].

Notwithstanding that Petitioner's complaint did not allege any claim arising under federal patent law; and notwithstanding that the District Court's judgment did not adjudicate any claim which arose under federal patent law; and notwithstanding that Respondent was openly attempting to mount a collateral attack on a prior judgment of the Tenth Circuit, Respondent filed a Notice of Appeal directed to the Federal Circuit. The sole purported basis of appellate jurisdiction in the Federal Circuit was the one noted by the District Court: Respondent's having included, in its answer, a counterclaim against Petitioner for alleged patent infringement. According to Respondent, it was appropriate to look to the contents of Respondent's answer in determining whether this civil action "arises under" federal patent law,

or not.[3] Respondent thus argued that the Federal Circuit, rather than the Tenth Circuit, should determine whether a prior judgment of the Tenth Circuit operated to bar Respondent from re-litigating a claim arising under the Lanham Act.

As it had done in the District Court, Petitioner filed a brief with the Federal Circuit contesting that Court's appellate jurisdiction and urging that Respondent's appeal be dismissed for lack of jurisdiction or, alternatively, transferred to the Tenth Circuit pursuant to 28 U.S.C. § 1631. As a further alternative, Petitioner urged that the District Court's grant of summary judgment be affirmed.

On June 5, 2001, the Court of Appeals for the Federal Circuit issued a two-page Order which provided in full (Appendix A):

> (1) The March 27, 2000 judgment of the United States District Court for the District of Kansas is vacated.

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3. As described more fully *infra*, the Court of Appeals for the Federal Circuit has held that a defendant's answer can be relied upon to establish whether a civil action "arises under" federal patent law, *see Aerojet-General Corp. v. Machine Tool Works, Oerlikon-Buehrle Ltd.*, 895 F.2d 736 (Fed. Cir. 1990) (*en banc*), notwithstanding this Court's many precedents holding that "the plaintiff is [the] absolute master of what jurisdiction he will appeal to," *Healy v. Sea Gull Specialty Co.*, 237 U.S. 479, 480 (1915) (Holmes, J.), *quoted in Merrell Dow Pharm., Inc. v. Thompson*, 478 U.S. 804, 809 n.6 (1986), and that "whether a claim 'arises under' patent law 'must be determined from what necessarily appears in the plaintiff's statement of his own claim in the bill or declaration." *Christianson v. Colt Indus. Operating Corp.*, 486 U.S. 800, 809 (1988) (quoting *Franchise Tax Board v. Construction Laborers Vacation Trust*, 463 U.S. 1, 10 (1983) (quoting *Taylor v. Anderson*, 234 U.S. 74, 75-76 (1914)).

> (2) The case is remanded to the United States District Court for the District of Kansas for further proceedings in light of the decision of the Supreme Court of the United States in *Traffix Devices v. Marketing Displays, Inc.*, 121 S. Ct. 1255 (2001). The district court is directed to consider whether the "change in the law" exception to collateral estoppel applies in view of the *Traffix* decision, and if appropriate, then to consider the case on the merits.
>
> (3) Each side shall bear its own costs.

REASONS FOR GRANTING THE PETITION

The jurisdictional questions presented by this case are of broad and general significance. The decision below rests on a jurisdictional principle which affects every antitrust plaintiff, every copyright plaintiff, every contract plaintiff, every trademark plaintiff, and indeed, every federal court plaintiff whose adversary may assert a counterclaim for alleged patent infringement of any nature.[4] Under the Federal Circuit's interpretation of the "well-pleaded complaint rule"

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4. In *DSC Communications Corp. v. Pulse Communications, Inc.*, 170 F.3d 1354 (Fed. Cir.), *cert. denied*, 528 U.S. 923 (1999), the Federal Circuit held that a defendant's assertion of a permissive counterclaim for alleged patent infringement was sufficient to bring a case within the scope of 28 U.S.C. § 1295(a)(1), notwithstanding that the plaintiff's complaint alleged no claim "arising under" federal patent law. 170 F.3d at 1359. Thus, according to the Federal Circuit, a defendant can readily evade regional Circuit jurisdiction by asserting any sort of patent counterclaim against a plaintiff, including one that does not arise out of the same transactions or events which form the basis of the plaintiff's suit.

governing federal court jurisdiction, plaintiffs who commence civil actions in federal court are anything but the "absolute master of what jurisdiction they will appeal to." *Healy v. Seal Ball Speciality Co.*, 237 U.S. 479, 480 (1915) (Holmes, J.), *quoted in Merrell Dow Pharm., Inc. v. Thompson*, 478 U.S. 804, 809 n.6 (1986). Rather, as this case demonstrates, the Federal Circuit rule is that defendants purportedly control — and can unilaterally change — both the law[5] and the appellate court which will govern disposition of non-patent claims asserted by a plaintiff.

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5. The Federal Circuit's expansive interpretation of 28 U.S.C. § 1295(a)(1) has coincided with an equally expansive, and equally alarming, expansion of the Federal Circuit's willingness to disregard regional Circuit law on substantive, non-patent law issues. In *Midwest Indus., Inc. v. Karavan Trailers, Inc.*, 175 F.3d 1356 (Fed. Cir.), *cert. denied*, 528 U.S. 1019 (1999), the Federal Circuit overruled a number of its prior precedents and held that thenceforth it would apply "its own" law, rather than regional Circuit law, in determining whether and to what extent product configurations were protectable as "trade dress" under 15 U.S.C. § 1125(a). 175 F.3d at 1361. The Federal Circuit's announced preparedness to disregard regional Circuit law on product configuration "trade dress" questions was what prompted Respondent to attempt to mount a collateral attack on the final judgment in *Vornado I*.

Similarly, in *In re Independent Service Organizations Antitrust Litigation*, 203 F.3d 1322, 1324-27 (Fed. Cir. 2000), *cert. denied*, 121 S. Ct. 1077 (2001), the Federal Circuit overruled a number of its prior decisions and held that it would apply "its own" law, rather than regional Circuit law, to the question whether a refusal to sell patented spare parts violated Section 2 of the Sherman Act, 15 U.S.C. § 2. *See also Nobelpharma AB v. Implant Innovations, Inc.*, 141 F.3d 1059, 1067-68 (Fed. Cir.), 525 U.S. 876 (1998) (Federal Circuit would apply "its own" law, rather than regional Circuit law, to question whether fraudulent procurement of patent violated federal antitrust law).

The Federal Circuit's approach to determining "arising under" jurisdiction is contrary to numerous decisions of this Court and purports to divest regional Circuit Courts of Appeals of jurisdiction to determine the merits of civil actions commenced under federal or state laws having nothing to do with U.S. patents, their interpretation, infringement, or validity. While "[i]t is possible to conceive of a rational jurisdictional system in which the answer as well as the complaint would be consulted before a determination is made whether the case 'arose under' federal law," that simply is not the law. *Franchise Tax Board v. Construction Laborers Vacation Trust*, 463 U.S. 1, 10 n.9 (1983).

The appellate jurisdiction of the Federal Circuit is prescribed in 28 U.S.C. § 1295 which provides in pertinent part:

> The United States Court of Appeals for the Federal Circuit shall have exclusive jurisdiction —
>
> > (1) of an appeal from a final decision of a district court of the United States . . . , if the jurisdiction of that court was based, in whole or in part, on section 1338 of this title, except that a case involving a claim arising under any act of Congress relating to copyrights, exclusive rights in mask works, or trademarks and no other claim under section 1338(a) shall be governed by sections 1291, 1292, and 1294 of this title . . . .

In *Christianson v. Colt Indus. Operating Corp.*, 486 U.S. 800 (1988), this Court vacated a judgment of the Federal Circuit because the plaintiff's complaint did not allege any claim "arising under" federal patent law. In reaching this result, this Court held that 28 U.S.C. § 1295(a)(1) extended

> only to those cases in which a well-pleaded complaint establishes either that federal patent law creates the cause of action or that the plaintiff's right to relief necessarily depends on resolution of a substantial question of federal patent law, in that patent law is a necessary element of one of the well-pleaded claims.

486 U.S. at 808-809.

The " 'well-pleaded complaint rule,' . . . provides that federal jurisdiction exists only when a federal question is presented on the face of the plaintiff's properly pleaded complaint. . . . The rule makes the plaintiff the master of the claim. . . ." *Caterpillar Inc. v. Williams*, 482 U.S. 386, 392 (1987). 28 U.S.C. § 1295(a)(1) expressly incorporates by reference the "arising under" jurisprudence of 28 U.S.C. § 1338(a), under which "the District court's jurisdiction is determined by reference to the well-pleaded complaint, not the well-tried case." *Christianson*, 486 U.S. at 814.

As its name indicates, the "well-pleaded complaint rule" looks to the contents of a plaintiff's complaint, and not to a defendant's answer, to determine if a civil action "arises under" federal patent law, or not. The rule embodies a basic principle of federal court jurisdiction.

> The party who brings a suit is master to decide what law he will rely upon and therefore does

> determine whether he will bring a suit arising under the patent or other law of the United States by his declaration or bill.

The Fair v. Kohler Die & Specialty Co., 228 U.S. 22, 25 (1913). *See Merrell Dow Pharmaceuticals Inc. v. Thompson*, 478 U.S. 804, 809 n.6 (1986) ("jurisdiction may not be sustained on a theory that the plaintiff has not advanced"); *Healy v. Sea Gull Specialty Co.*, 237 U.S. 479, 480 (1915) ("the plaintiff is absolute master of what jurisdiction he will appeal to").

In the present case, it is undisputed that the complaint filed by Petitioner in the District Court does not plead any claim which "arises under" federal patent law within the meaning of 28 U.S.C. § 1338(a). The complaint pleads seven causes of action arising under 15 U.S.C. §§ 1051 et seq., Mass. Gen. L. ch. 93A §§ 2, 11, and the common law. The complaint invokes the District Court's subject matter jurisdiction "under 15 U.S.C. § 1121, 28 U.S.C. §§ 1331 and 1332(a) and the principles of supplemental jurisdiction codified in 28 U.S.C. § 1367". Yet according to the Federal Circuit, this action "arises under" federal patent law and so is subject to Federal Circuit appellate jurisdiction under 28 U.S.C. § 1295(a)(1).

The Federal Circuit's aberrant interpretation of the "well-pleaded complaint rule" traces to the case of *Aerojet-General Corp. v. Machine Tool Works, Oerlikon-Buehrle Ltd.*, 895 F.2d 736 (Fed. Cir. 1990) (*en banc*). In *Aerojet*, the Federal Circuit held that the "well-pleaded complaint rule" was "merely the name of the rule, not a statement of a principle of law," 895 F.2d at 743, with the purported result that a case could "arise under" federal patent law for jurisdictional

purposes, even if the plaintiff's well-pleaded complaint included no claim arising under federal patent law. Departing from an unbroken line of this Court's decisions spanning nearly a century, the Federal Circuit concluded that a defendant's answer could transform a civil action into an action "arising under" federal patent law if it included a patent law counterclaim. The Federal Circuit stated (*id.* at 742):

> It would seem at best incongruous to hold that we have appellate jurisdiction when a well-pleaded patent infringement claim is the basis of a pleading labeled 'complaint' but not when the identical well-pleaded claim is the basis of pleading labeled "counterclaim". *Id.* at 742.

The Federal Circuit thus swept away, as "incongruous," the "plaintiff's traditional prerogative of forum selection -- the well-established principle that the plaintiff is the master of the complaint." 14B C. Wright, A. Miller & E. Cooper, *Federal Practice and Procedure* § 3722, at 453 (3d ed. 1998) (citing authorities). It does violence, not just to the "name" of the "well-pleaded complaint rule," but to the rule itself, to hold that a defendant's answer and counterclaim can divest a plaintiff of its chosen law and forum. This Court has expressly held federal question jurisdiction cannot be predicated on "subsequent pleadings by the defendant," as distinct from pleadings by the plaintiff who commenced an action. *Great Northern Ry. Co. v. Alexander*, 246 U.S. 276, 281 (1918). The Fifth, Seventh, and Ninth Circuits have similarly held that counterclaims do not change the status of a civil action as one "arising under," or not "arising under," federal law for jurisdictional purposes. *E.g.*, *Metro Ford Truck Sales, Inc. v. Ford Motor Co.*, 145 F.3d 320, 326-27

(5th Cir. 1998), *cert. denied*, 525 U.S. 1068 (1999); *FDIC v. Elefant*, 790 F.2d 661, 667 (7th Cir. 1986) (Easterbrook,J.); *Takeda v. Northwestern Nat'l Life Ins. Co.*, 765 F.2d 815, 822 (9th Cir. 1985). *See* 14B C. Wright, A. Miller & E. Cooper, *Federal Practice and Procedure* § 3722 at 414 & n.21 (3d ed. 1998) (collecting cases).[6]

In each of the above-cited cases, this Court and the Courts of Appeals held that a defendant's counterclaim was extraneous to whether the civil action in question "arose under" federal law for jurisdictional purposes, notwithstanding that the defendant's counterclaim expressly pleaded a cause of action arising under federal law. Contrary to the Federal Circuit's stated view, there is nothing "incongruous" about looking to the face of a plaintiff's complaint to determine whether a civil action "arises under" federal patent law, or not — as this Court expressly held should be done in *Christianson*, 486 U.S. at 808-09, for the purpose of determining whether the Federal Circuit had jurisdiction.

In support of its conclusion that "well-pleaded complaint rule" should be construed, instead, as a "well-pleaded complaint or well-pleaded answer and counterclaim rule," the Federal Circuit cited "Congress' goal of enhancing

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6. The holdings of the cases arose cited in the text were made in the context of removal jurisdiction; however, it is well-settled that "[t]he well-pleaded complaint rule applies to the original jurisdiction of the district courts as well as to their removal jurisdiction." *Franchise Tax Board v. Construction Laborers Vacation Trust*, 463 U.S. 1, 10 n.9 (1983). In *Christianson*, this Court held that the "arising under" jurisprudence developed in the context of 28 U.S.C. § 1331 applies co-equally to 28 U.S.C. § 1338(a). 486 U.S. at 808-09.

predictability and certainty of the patent laws." *Aerojet*, 895 F.2d at 745. But as the Federal Circuit has itself observed, "Congress was not concerned that an occasional patent law decision of a regional circuit court, or of a state court, would defeat its goal of increased uniformity in the national law of patents." *Speedco Inc. v. Estes*, 853 F.2d 909, 914 (Fed. Cir. 1988) (quoting *Atari, Inc. v. JS&A Group*, 747 F.2d 1422, 1432 (Fed. Cir. 1984)). More fundamentally, the goal of "uniformity" in patent law jurisprudence is not the only goal of federal court jurisdictional principles, and surely is not so weighty an objective as to warrant jettisoning of the "well-pleaded complaint rule" and potentially diverting to the Federal Circuit every conceivable type of case in which a defendant might assert a patent law counterclaim. It would be, in any event, for this Court, not an intermediate appellate court, to authorize such a fundamental change in federal court jurisdictional principles. *Cf. Cardinal Chemical Co. v. Morton Int'l, Inc.*, 508 U.S. 83 (1993) (rejecting the Federal Circuit's practice of routinely vacating declaratory judgments of invalidity when affirming a finding of non-infringement).

Even assuming, for purposes of argument, that a patent law counterclaim could form the sole basis of Federal Circuit jurisdiction under 28 U.S.C. § 1295(a)(1), there would still remain the question "whether Rule 54(b) can be used to direct an appeal to a particular circuit." *Unique Concepts, Inc. v. Manuel*, 930 F.2d 573, 575 (7th Cir. 1991) (Easterbrook, J.). In *Denbicare U.S.A., Inc. v. Toys "R" Us, Inc.*, 84 F.3d 1143 (9th Cir.), *cert. denied*, 519 U.S. 873 (1996), the Ninth Circuit held that a partial final judgment under Fed. R. Civ. P. 54(b) which disposed of no patent claim was properly appealed to a regional Court of Appeals, notwithstanding that the defendant had counterclaimed for a declaratory judgment of a patent's invalidity. 84 F.3d at 1147-48. In

reaching this result, the Ninth Circuit cited language by Seventh Circuit Judge Easterbrook in the *Unique Concepts* case and the legislative history of 28 U.S.C. § 1295(a) which expressly encourages courts to use Rule 54(b) to preserve regional Circuit jurisdiction over judgments disposing of non-patent claims, and to prevent appellate forum-shopping:

> This measure . . . is not intended to create forum shopping opportunities between the Federal Circuit and the regional courts of appeals on other claims. Thus, for example, mere joinder of a patent claim in a case whose gravamen is antitrust should not be permitted to avail a plaintiff of the jurisdiction of the Federal Circuit and avoidance of the traditional jurisdiction in governing legal interpretations of a regional court of appeals. Federal District judges are encouraged to use their authority under the Federal Rules of Civil Procedure, *see* Rules 13(i), 16, 20(b), 42(b), 54(b), to ensure the integrity of the jurisdiction of the federal court of appeals by separating final decisions on claims involving substantial antitrust issues from trivial patent claims, counterclaims, cross-claims, or third party claims raised to manipulate appellate jurisdiction.
>
> . . . If, for example, a patent claim is manipulatively joined to an antitrust action but severed or dismissed before final decision of the antitrust claim, jurisdiction over the appeal of the antitrust claim should not be changed by this Act but should rest with the regional court of appeals.

S. Rep. No. 97-275, at 19-20 *reprinted in* 1982 U.S.C.C.A.N. 11, 29-30.

This case presents the Court with the opportunity to clarify that District Courts may, in fact, employ Fed. R. Civ. P. 54(b) to preserve a plaintiff's choice of law and jurisdiction. Where, as here, a final judgment has been entered which determines no claim arising under federal patent law, there is not even a patent law uniformity justification for ousting a regional Circuit of jurisdiction.

The present case well illustrates how the Federal Circuit's interpretation — and *de facto* rejection — of the "well-pleaded complaint rule" can lead not only to unfair and unpredictable results, but to enormous waste of judicial and party resources. In the two-page Order issued by the Federal Circuit, the District Court is directed to consider whether the law of the Tenth Circuit may have changed in such a way as to permit a collateral attack on a prior judgment of the Tenth Circuit in a case arising under federal trademark law. Then, after the District Court attempts to divine how the Tenth Circuit would regard the state of its own law, the case presumably would return to the Federal Circuit for additional divination efforts.

It is not difficult to see how the interests of justice, judicial economy and efficiency, and stability of prior final judgments, have all been sacrificed in this case as a consequence of the Federal Circuit's aberrant interpretation of the "well-pleaded complaint rule" governing federal court jurisdiction under 28 U.S.C. § 1295(a)(1) and 1338(a).

CONCLUSION

For the reasons set forth above, a writ of certiorari should issue to review the judgment of the Court of Appeals for the Federal Circuit.

Respectfully submitted,

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September 4, 2001

APPENDIX

APPENDIX A — PER CURIAM ORDER OF THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT DATED AND FILED JUNE 5, 2001

UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

00-1286

THE HOLMES GROUP, INC.,

Plaintiff-Appellee,

v.

VORNADO AIR CIRCULATION SYSTEMS, INC.,

Defendant-Appellant.

Before MAYER, *Chief Judge*, NEWMAN and SCHALL, *Circuit Judges*.

PER CURIAM.

ORDER

Upon consideration of the issues presented in this case,

IT IS ORDERED THAT:

(1) The March 27, 2000 judgment of the United States District Court for the District of Kansas is vacated.

Appendix A

(2) The case is remanded to the United States District Court for the District of Kansas for further proceedings in light of the decision of the Supreme Court of the United States in *Traffix Devices, Inc. v. Marketing Displays, Inc.*, 121 S. Ct. 1255 (2001). The district court is directed to consider whether the "change in the law" exception to collateral estoppel applies in view of the *Traffix* decision, and, if appropriate, then to consider the case on the merits.

(3) Each side shall bear its own costs.

FOR THE COURT

JUN – 5 2001
Date

s/ Jan Horbaly
Jan Horbaly
Clerk

APPENDIX B — MEMORANDUM AND ORDER OF THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF KANSAS DATED AND FILED MARCH 8, 2000

IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF KANSAS

No. 99-1499-WEB

THE HOLMES GROUP, INC.,

Plaintiff,

v.

VORNADO AIR CIRCULATION SYSTEMS, INC.,

Defendant.

Memorandum and Order

Plaintiff Holmes Group Inc. filed this action seeking, among other things, a declaratory judgment holding that Holmes' sale of its fan and heater products does not infringe any valid or enforceable "trade dress" claimed by defendant Vornado under 15 U.S.C. §§ 1501 et seq. The matter is now before the court on Holmes' motion for summary judgment on its first cause of action seeking the aforementioned relief. Holmes argues it is entitled to summary judgment by virtue of the collateral estoppel effect of previous litigation involving defendant Vornado and another fan manufacturer. The court heard preliminary arguments from the parties relating to this issue at a hearing on January 3, 2000, and

concludes that further argument would not assist in deciding the questions presented.

I. *Facts.*

1. Holmes is a manufacturer of branded consumer household products. Holmes manufactures and sells a wide variety of household fan and heater products in U.S. interstate commerce, including the Holmes® Model HAOF-90 Blizzard™ Oscillating Power Table Fan; the Holmes® Model HFH 298 Power Accutemp™ Bedroom Heater; and the Holmes® Model HFH 299 Power Heater.

2. Defendant Vornado is a competitor of Holmes in the U.S. fan and heater business. Vornado sells household fan and heater products, some of which incorporate arcuate vane structures exemplified in Exhibits 11 and 12 of the declaration of James W. Dabney.

3. On or about November 26, 1999, Vornado lodged a complaint with an administrative agency in Washington, D.C., known as the International Trade Commission (the "ITC"). In its ITC complaint, Vornado claimed to be the owner of a "trade dress" comprised of a "spiral grill design" embodied in certain Vornado fan and heater products, and asserted that Holmes' sale of the Holmes products essentially infringed that trade dress in alleged violation of 15 U.S.C. § 1125(a).

4. In its answer in this action dated December 30, 1999, defendant interposed an affirmative defense which substantially repeated the trade dress allegations contained

in the ITC complaint. Defendant's answer in this action alleges that the spiral grill design embodied in certain Vornado fan and heater products constitutes non-functional trade dress and that Holmes' sale of the Holmes Products infringes that trade dress in violation of 15 U.S.C. § 1125(a).

5. The trade dress which defendant has accused Holmes of infringing in this action and in the ITC complaint, exemplified by the grill structure incorporated in the Vornado Model 550G "compact" fan depicted in Exhibit 5 to defendant's ITC complaint, is the exact same mechanical configuration which the Tenth Circuit has explicitly held "cannot be protected as trade dress" in Vornado I.

6. On November 6, 1992, Vornado commenced an action in this court entitled *Vornado Air Circulation Systems, Inc. v. Duracraft Corp.*, Civ. Action No. 92-1453-WEB (D. Kan.). Vornado's complaint asserted that the aforementioned "spiral grill design", which Vornado then referred to as the "Patented AirTensity™ Grill", constituted non-functional trade dress subject to regulation and injunction under 15 U.S.C. § 1125(a).

7. On July 5, 1995, the Tenth Circuit rendered a judgment reported at 58 F.3d 1498 which rejected defendant's trade dress claim and concluded:

> Vornado included the arcuate grill van structure as an element of its patent claims and described the configuration as providing an "optimum air flow." Then, after the first patent issued and Vornado subsequently found evidence that other

grill structures worked as well or better than the spiral grill, Vornado did not repudiate or disclaim in any way the grill element of its patent. Instead, Vornado sought and received a reissued patent that expanded its claims with respect to the grill.

Even if we discount entirely Vornado's extensive advertising campaign emphasizing the importance of the "AirTensity Grill," this patent history on its face obviates any need for a remand on the question of inventive significance. We simply take Vornado at its word. Because the "Patented AirTensity Grill" is a significant inventive element of Vornado's patented fans, it cannot be protected as trade dress.

The Tenth Circuit opinion reversed this court's initial ruling in favor of Vornado. *See Vornado Air Circulation Systems, Inc. v. Duracraft Corp.*, 1994 WL 1064319 (D. Kan., Mar. 4, 1994).

8. On January 8, 1996, the Supreme Court of the United States denied a petition by Vornado for review of the Tenth Circuit's *Vornado I* decision. This court subsequently entered final judgment dismissing with prejudice, on the merits, the trade dress claim which Vornado had asserted in *Vornado I*, and awarded costs against Vornado.

9. In *Vornado I*, the Tenth Circuit specifically considered and decided the issue of whether the arcuate or "spiral" grill configuration embodied in Vornado fan and heater products was eligible for protection as trade dress under 15 U.S.C. § 1125(a). By its complaint in the ITC and

its affirmative defense in this action, defendant seeks to re-litigate the very same issue, which was actually, necessarily, and finally decided adversely to defendant in *Vornado I*.

II. *Summary Judgment Standards.*

The standards and procedures for summary judgment are well established and will not be fully repeated here. *See Celotex Corp. v. Catrett*, 477 U.S. 317, 323-24 (1986). In essence, summary judgment is proper if the pleadings, depositions, answers to interrogatories, and admissions on file, together with the affidavits, if any, show that there is no genuine issue as to any material fact and that the moving party is entitled to judgment as a matter of law. *Id.*

III. *Arguments.*

Holmes argues that under the doctrine of collateral estoppel the judgment in *Vornado I* bars Vornado from asserting in this action that the configuration of its "AirTensity Grill" qualifies for trade dress protection under 15 U.S.C. § 1125(a). As such, Holmes contends it is entitled to summary judgment on its claim for a declaratory judgment of non-infringement. In response, Vornado contends that collateral estoppel should not be applied because there has been a fundamental change in the controlling law, and because application of the doctrine in this case would be unfair to Vornado.

IV. *Discussion.*

The federal courts have traditionally adhered to the doctrine of collateral estoppel. *Allen v. McCurry*, 449 U.S.

90, 94 (1980). Under that doctrine, "once a court has decided an issue of fact or law necessary to its judgment, that decision may preclude relitigation of the issue in a suit on a different cause of action involving a party to the first case." *Id.* The doctrine furthers several important interests: it relieves parties of the cost and vexation of multiple lawsuits, it conserves judicial resources, and, by preventing inconsistent decisions, it encourages reliance on adjudication. *Id.* The Supreme Court has recently reaffirmed the benefits of collateral estoppel and has applied it in contexts not recognized at common law. For example, the Court has eliminated the requirement of "mutuality" of parties and has permitted a litigant not a party to a federal case to assert the doctrine "offensively" in a new federal suit against the party who lost on the issue in the first case. *Id.* at 94-95.

The elements of collateral estoppel are clearly satisfied in this case.[1] The only real question is whether the doctrine should not be applied because of a change in the law since *Vornado I.* It is well established that an intervening change in the law can be a sufficient basis for declining to apply collateral estoppel. *See e.g., Montana v. United States*, 440 U.S. 147, 155 (1979); *Spradling v. City of Tulsa*, 198 F.3d 1219, 1223 (10th Cir. 2000); *Bingaman v. Dept. Of Treasury*, 127 F.3d 1431, 1437 (Fed. Cir. 1997) ("In a number of cases,

1. The trade dress now claimed by Vornado is identical to that which it asserted in *Vornado I*; *Vornado I* was decided on the merits; Vornado was a party to the prior action; and Vornado had a full and fair opportunity to litigate the issue in the prior action. *See Matosantos Commercial Corp. v. Applebee's Int'l., Inc.*, 64 F.Supp.2d 1105, 1108 (D. Kan. 1999) (listing elements of collateral estoppel).

this court and others have held that a significant change in the 'legal atmosphere' — whether in the form of new legislation, a new court decision, or even a new administrative ruling — can justify a later court's refusal to give collateral estoppel effect to an earlier decision.").

Vornado contends this "change in the law" exception is met because in *Midwest Industries, Inc. v. Karavan Trailers, Inc.*, 175 F.3d 1356 (Fed. Cir. 1999), the Federal Circuit expressly rejected the Tenth Circuit's *Vornado I* holding, ruling instead that a claim for trade dress protection was not barred by the fact that a product configuration had been claimed as a significant inventive element of a patent. *Id.* at 1364. As part of its ruling in that case, the Federal Circuit abandoned its prior practice of applying regional circuit law on questions involving the relationship between patent law and other federal law rights, and said that "[h]enceforth, wili apply our own law to such questions." *Id.* at 1359. This alteration is potentially significant in the instant case, because Vornado has asserted a counterclaim alleging infringement of Vornado's patent. Under 28 U.S.C. § 1295(a)(1), the Federal Circuit has exclusive jurisdiction over an appeal from a final judgment of a district court if the district court's jurisdiction is based in whole or in part on a patent claim. Thus, it is possible (although not entirely certain) that any appeal of this court's judgment will be to the Federal Circuit[2],

2. Holmes contends it is doubtful the Federal Circuit would have jurisdiction over an appeal in this case, citing the "well-pleaded complaint rule" of *Christianson v. Colt Industries*, 486 U.S. 800 (1988), and pointing out that Holmes' complaint asserts no patent claim. This court does not need to stray into this procedural thicket

(Cont'd)

and that the Federal Circuit will apply its own law to the trade dress claim — a law that is now clearly at odds with the Tenth Circuit law underlying the judgment in *Vornado I.* By contrast, if the case is found not to involve a claim under the patent laws, an appeal would go to the Tenth Circuit, which would presumably apply the same rule expressed in *Vornado I* to bar Vornado's claim of trade dress. *See* 15 U.S.C. § 1121(a).

The court concludes that this clear conflict in the substantive law of the circuits does not require, nor does it warrant, a refusal to apply the law of collateral estoppel in this action. In the prior case, Vornado had a full and fair opportunity to litigate its trade dress claim against another manufacturer, and that claim was ultimately decided against Vornado by the Tenth Circuit. Vornado petitioned the Supreme Court to review the ruling, but the Court declined to do so, leaving intact this court's resulting judgment that Vornado was barred from claiming trade dress rights in its grill design. The Tenth Circuit law upon which that judgment was based has not changed since *Vornado I*, and the court sees nothing to substantiate Vornado's hopeful speculation that if the Tenth Circuit were to revisit the issue "it would choose a different path than it articulated in *Vornado I.*" Def. Mem. at 5. All of the procedural machinations and intercircuit intrigue implicated by this action cannot obscure a central truth: *Vornado I* constitutes a final and valid judgment of this court and the law upon which that judgment

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(Cont'd)
to decide the issue before it. Regardless of which Court of Appeals would have jurisdiction, the court determines that the principles of collateral estoppel should be applied in this case.

was based remains unchanged. Under such circumstances, this court will not refuse to give effect to its own prior judgment.

Aside from an asserted change in the law, Vornado also points out that collateral estoppel should not be applied where it would result in unfairness to a defendant. *Citing Parklane Hosiery Co., Inc. v. Shore*, 439 U.S. 322, 331 (1979). But the unfair circumstances identified by the Court in *Parklane Hosiery* — lack of incentive to prosecute the first action, inconsistency with other judgments in favor of the defendant, and lack of procedural opportunities in the first action — are clearly not present in this case. *Cf.* at 330. Vornado nevertheless argues unfairness would result because manufacturers against whom Vornado competes may be able to obtain trade dress protection on features of a type that Vornado is barred from protecting by *Vornado I.* Def. Mem. at 4. The *Restatement (Second) of Judgments* suggests that it might be inappropriate to apply collateral estoppel where its application "would impose on one of the parties a significant disadvantage, or confer on him a significant benefit, with respect to his competitors," or where it "would result in a manifestly inequitable administration of the laws." *Restatement (Second) of Judgments*, § 28, comment c. Notwithstanding the fact that some inequality could emerge from the difference in law between the circuits, the court cannot agree that the circumstances of this case warrant re-litigation of the legal issue determined in *Vornado I.*[3]

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3. As the *Restatement* points out, two concepts of equality are at odds with each other in this type of situation. One concept is that the outcomes of similar legal disputes between the same parties at

(Cont'd)

As Holmes points out, conflict in the law between circuits is not unheard of, and the fact that one circuit disagrees with another does not necessarily mean the former would decline to give collateral estoppel effect to a judgment arising in the latter. But that is a matter for the Federal Circuit (or the Tenth Circuit) to determine. *Cf. Colby v. J.C. Penney Co.*, 811 F.2d 1119, 1124 (7th Cir. 1987) ("the responsibility for maintaining the law's uniformity is a responsibility of appellate rather than trial judges"). Likewise, the ITC must determine in its own right whether the doctrine of collateral

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(Cont'd)
different points in time should not be disparate. The other is that the outcomes of similar legal disputes being contemporaneously determined between different parties should be resolved according to the same legal standards. *See Restatement (Second) of Judgments*, § 28, comment c. In such a situation, "the choice must be made in terms of the importance of stability in the legal relationships between the immediate parties, the actual likelihood that there are similarly situated persons who are subject to application of the rule in question, and the consequences to the latter if they are subject to different legal treatment." *Id.*

Although the foregoing standards provide fodder for both sides of the collateral estoppel argument in this case, the court finds in them no compelling reason for declining to apply the same rule that was previously applied to the same issue in *Vornado I*. The court notes that since *Vornado I*, Holmes and other companies have manufactured various products in reliance upon the rule expressed in that case. *See Marino Decl.* § 22. Failure to apply collateral estoppel here would likely create a baffling state of legal affairs insofar as manufacture of these products is concerned. *Cf. American Med. Int'l., Inc. v. Sec. of Health, Education & Welfare*, 677 F.2d 118, 123 (the surest way to obtain decisional uniformity is to give estoppel effect to the earliest judgment).

estoppel should apply to bar any of the claims now pending before it. Insofar as this action is concerned, however, this court previously entered a valid and final judgment in *Vornado I* and the Tenth Circuit law upon which that decision was based has not been changed. Under principles of collateral estoppel, the ruling in *Vornado I* bars Vornado from re-litigating the same issue in this action. Accordingly, Holmes is entitled as a matter of law to judgment declaring that it has not infringed Vornado's asserted trade dress rights.

V. *Vornado's Motion to Stay.*

The court has considered defendant Vornado's Motion to Stay (Doc. 53) pending a ruling by the Federal Circuit on Vornado's appeal of the preliminary injunction in this case, but the court concludes the motion should be denied. Given the straightforward question presented by the motion for summary judgment, the court does not believe judicial economy would be furthered by holding the motion in abeyance.

VI. *Conclusion.*

Defendant Vornado's Motion to Stay (Doc. 53) is hereby DENIED.

Plaintiff Holmes' Motion for Summary Judgment on its first cause of action (Doc. 42) is hereby GRANTED.

IT IS SO ORDERED this 8th day of March, 2000, at Wichita, Ks.

s/ Wesley E. Brown
Wesley E. Brown,
U.S. Senior District Judge

APPENDIX C — FINAL JUDGMENT OF THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF KANSAS DATED AND FILED MARCH 27, 2000

IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF KANSAS

No. 99-1499-WEB

THE HOLMES GROUP, INC.,

Plaintiff,

vs.

VORNADO AIR CIRCULATION SYSTEMS, INC.,

Defendant.

FINAL JUDGMENT

The parties having jointly moved for entry of Final Judgment pursuant to Fed. R. Civ. Proc. 54(b), and the Court expressly finding no just reason for delay in the entry of Final Judgment, it is hereby:

ORDERED, ADJUDGED, and DECREED that "Holmes is entitled as a matter of law to judgment declaring that it has not infringed Vornado's asserted trade dress rights" [Doc 72, p. 11]; "Plaintiff Holmes' Motion for Summary Judgment on its first cause of action is hereby GRANTED" [Doc. 72, p. 12.]; and Final Judgment is hereby expressly entered in favor of Holmes and against Vornado on Holmes' first cause of action seeking a declaratory judgment "holding

that Holmes' sale of its fan and heater products does not infringe any valid or enforceable 'trade dress' claimed by defendant Vornado under 15 U.S.C. §§ 1051 et seq." [Doc. 72, p. 1].

The Clerk is expressly directed to enter this Final Judgment forthwith.

SO ORDERED this 27th day of March, 2000.

s/ Wesley E. Brown
Wesley E. Brown
United States District Senior Judge

APPENDIX D — RELEVANT STATUTES

28 U.S.C. § 1295(a)(1)

§ 1295. Jurisdiction of the United States Court of Appeals for the Federal Circuit

(a) The United States Court of Appeals for the Federal Circuit shall have exclusive jurisdiction —

> **(1)** of an appeal from a final decision of a district court of the United States, the United States District Court for the District of the Canal Zone, the District Court of Guam, the District Court of the Virgin Islands, or the District Court for the Northern Marinara Islands, if the jurisdiction of that court was based, in whole or in part, on section 1338 of this title, except that a case involving a claim arising under any Act of Congress relating to copyrights, exclusive rights in mask works, or trademarks and no other claims under section 1338(a) shall be governed by sections 1291, 1292, and 1294 of this title;
>
> * * *

Appendix D

28 U.S.C. § 1338(a)

§ 1338. Patents, plant variety protection, copyrights, mask works, designs, trademarks, and unfair competition

(a) The district courts shall have original jurisdiction of any civil action arising under any Act of Congress relating to patents, plant variety protection, copyrights and trademarks. Such jurisdiction shall be exclusive of the court of the states in patent, plant variety protection and copyright cases.

* * * *

APPENDIX E — ORDER OF THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF KANSAS DATED AND FILED JUNE 12, 2000

IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF KANSAS

Civil Action No. 99-1499-WEB

THE HOLMES GROUP, INC.,

Plaintiff,

vs.

VORNADO AIR CIRCULATION SYSTEMS, INC.,

Defendant.

ORDER

This matter having been opened to the Court on the joint motion of plaintiff The Holmes Group, Inc. ("Holmes") and defendant Vornado Air Circulation Systems, Inc. ("Vornado") for an Order dismissing claims on the terms and conditions set forth herein, it is hereby ORDERED, pursuant to Fed. R. Civ. P. 41(a)(2), as follows:

1. Except insofar as they plead a right to the injunctive relief which this Court granted by Order dated January 4, 2000, the plaintiff's Second, Third, Fourth, Fifth, Sixth, and Seventh Causes of Action are hereby dismissed without prejudice to re-opening upon the motion of any party as provided in paragraph 4 of this Order.

2. All proceedings relating to the counterclaim of defendant Vornado are hereby stayed pending further Order of this Court.

3. In the event that the Final Judgment of this Court on plaintiff's First Cause of Action is affirmed on appeal, then (a) the Preliminary Injunction Order issued by this Court on January 4, 2000, shall become a Permanent Injunction Order, (b) the preliminary injunction bond previously posted by Holmes shall be released and discharged, (c) the dismissal of claims ordered in paragraph 1 of this Order shall become with prejudice; and (d) the counterclaim of Vornado shall be dismissed with prejudice.

4. In the event that the Final Judgment of this Court on plaintiff's First Cause of Action is reversed on appeal, then either party shall have the right to seek reinstatement of all claims conditionally dismissed by this Order upon motion showing any such reversal on appeal.

Dated: June 12, 2000

s/ Wesley E. Brown
Wesley E. Brown
United States District Senior Judge

Appendix E

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(2)

Supreme Court, U.S.
FILED
OCT 9 2001
CLERK

No. 01-408

IN THE

Supreme Court of the United States

THE HOLMES GROUP, INC.

Petitioner,

--- v. ---

VORNADO AIR CIRCULATION SYSTEMS, INC.,

Respondent.

On Petition For Writ Of Certiorari
To The United States Court Of Appeals
For The Federal Circuit

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QUESTION PRESENTED

The question presented is whether the United States Court of Appeals for the Federal Circuit is correct in exercising jurisdiction over an appeal of a non-patent issue in a case having a pending patent counterclaim from a United States district court.

STATEMENT PURSUANT TO RULE 29.6

Respondent Vornado Air Circulation Systems, Inc. ("Vornado") has no parent companies, subsidiaries, or affiliates that have issued shares to the public.

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No. 01-408

IN THE

Supreme Court of the United States

THE HOLMES GROUP, INC.,

Petitioner,

--- v. ---

VORNADO AIR CIRCULATION SYSTEMS, INC.,

Respondent.

On Petition For Writ Of Certiorari
To The United States Court Of Appeals
For The Federal Circuit

BRIEF IN OPPOSITION

Respondent Vornado Air Circulation Systems, Inc. ("Vornado") respectfully requests that this Court deny the Holmes Group's petition for writ of certiorari seeking review of the Federal Circuit's decision in this case.

OPINIONS BELOW

The opinion of the Federal Circuit is unreported and is attached to Holmes's Petition at Appendix A. The opinion of the United States District Court for the District of Kansas is reported at 93 F.Supp.2d 1140 and is attached to the Petition at Appendix B.

STATEMENT OF THE CASE

In 1989 Respondent Vornado began selling its distinctive household fans, which have a uniquely designed, removable front grill structure with spiral (arcuate) vanes. In May 1990, Vornado obtained a utility patent (later re-issued as U.S. Patent No. Re. 34,551 (the "'551 patent")) claiming a ducted fan with multiple elements, one being a spiral grill that is removable. The grill alone was not patented.

In 1999 Vornado discovered that Petitioner Holmes had been importing from China and distributing its BLIZZARD fan, which incorporates a spiral grill that looks identical to Vornado's distinctive spiral grill. Vornado concluded that Holmes's fans both infringe the claims of Vornado's patent and violate Vornado's trade dress.

In an effort to prevent further importation of the infringing fans, on November 26, 1999 Vornado filed a complaint with the United States International Trade Commission ("ITC"), pursuant to § 337 of the Tariff Act of 1930, as amended, 19 U.S.C. § 1337. Vornado's complaint alleged both patent and trade dress infringement and requested that the ITC initiate an investigation of Holmes's importation activities with respect to Holmes's fans and other products. Vornado submitted patent claim charts showing Holmes's infringement of Vornado's patent on an element-by-element basis. The ITC instituted its investigation on January 21, 2000.

In an attempt to get the case into the tenth circuit, Petitioner Holmes commenced a district court action against Vornado in the U.S. District Court for the District of Kansas. Holmes filed its complaint on December 8, 1999, two weeks *after* Vornado filed the ITC action. Holmes filed suit seeking a declaration that Holmes's sale of its products do not infringe Vornado's asserted trade dress in its spiral grill on the ground that the ruling in *Vornado Air Circulation Systems, Inc. v. Duracraft Corp.*, 58 F.3d 1498 (10th Cir. 1995)("*Vornado I*") collaterally estops Vornado from asserting protectable trade dress rights in the spiral grill design.

Vornado counterclaimed in the district court, raising the same allegations of patent and trade dress infringement that Vornado had raised in its earlier ITC complaint.

Petitioner Holmes alleges that Vornado's assertion of the patent counterclaim in the district court was an attempt to steer any appeal to the Federal Circuit, yet Holmes conveniently omits any mention to this Court that Vornado's patent counterclaim was *compulsory*. Further, Holmes fails to inform this Court that Vornado's patent and trade dress infringement claims had *already been asserted* against Holmes at the International Trade Commission before Holmes filed its district court action regarding only trade dress infringement.[1]

The district court applied the principles of collateral estoppel to grant summary judgment on the issue of trade dress infringement in favor of Holmes. Yet in its opinion, even the district court recognized that "the Federal Circuit has exclusive jurisdiction over an appeal from a final judgment of a district court if the district court's jurisdiction is based in whole or in part on a patent claim." *The Holmes*

[1] Any "manipulation" of the appeal process would therefore appear to be on the part of Holmes, who filed a district court case on only the trade dress issues in the 10th Circuit, and then requested a stay of the ITC action. Appeals from the ITC are sent to the Federal Circuit. 28 U.S.C. § 1295(a)(6).

Group, Inc. v. Vornado Air Circulation Systems, Inc., 93 F.Supp.2d 1140, 1143 (D. Kan. 2000).

Vornado appealed the district court's partial final judgment to the United States Court of Appeals for the Federal Circuit (Appeal No. 00-1286). During the appeal to the Federal Circuit, Vornado did not have the resources to simultaneously litigate at the ITC, but, aware of the ITC's obligation under 19 CFR § 210.51(a) to resolve cases quickly, Vornado did not seek a stay of the ITC action. Instead, Vornado entered into partial settlement with Holmes, whereby Vornado withdrew the ITC case with the understanding that it would seek reinstitution of the investigation if the Federal Circuit ruled in Vornado's favor.

On June 5, 2001, the Federal Circuit vacated the judgment of the district court, and remanded the case for proceedings in light of the recent decision of this Court in *Traffix Devices v. Marketing Displays, Inc.*, 121 S.Ct. 1255 (2001). Holmes then petitioned this Court for writ of certiorari.

REASONS FOR DENYING THE PETITION

I. THE ACTIONS OF THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT ARE IN CONFORMITY WITH THE DECISIONS OF THIS COURT AND OTHER UNITED STATES COURTS OF APPEALS ON THE SAME MATTER

A. The Federal Circuit's exercise of jurisdiction over the appeal accords with this Court's precedent.

Petitioner Holmes asserts that the Federal Circuit, in exercising jurisdiction over Vornado's appeal (No. 00-1286),

has become a renegade court that fabricates its own version of the law and rules of procedure. Contrary to Petitioner's characterization that the Federal Circuit has departed "from an unbroken line of this Court's decisions spanning nearly a century," the Federal Circuit's jurisdiction over the appeal adheres to the sound reasoning of this Court and the other circuit courts of appeals. In fact, the Federal Circuit has previously addressed the very issue for which Holmes petitions this Court, and in doing so, the Federal Circuit sought guidance from this Court's prior rulings. In *Aerojet-General Corp. v. Machine Tool Works, Oerlikon-Buehrle Ltd.*, 895 F.2d 736 (Fed. Cir. 1990), the Federal Circuit addressed the following issue:

> In light of *Christianson v. Colt*, 486 U.S. 800 (1988), does this court have jurisdiction to hear an appeal in a case in which the district court's jurisdiction over the complaint was not based on §1338(a) but there is a counterclaim over which the district court would have §1338(a) jurisdiction if the counterclaim had been a complaint?

Id. at 738. In resolving the above question in the *Aerojet* case, the Federal Circuit thoroughly analyzed this Court's decision in *Christianson*.[2] The Federal Circuit found that *Christianson* dealt with the effect on jurisdiction of patent law issues raised only as a *defense*, and no patent claims appeared in the complaint or in any counterclaim. *Christianson* was clearly distinguishable on its facts from *Aerojet*, where the complaint in *Aerojet* did not allege any patent issues, but the defendant's compulsory counterclaims

[2] Holmes implies that the Federal Circuit discounts the law set forth in *Christianson*. However, the law of *Christianson* was originally that of the Federal Circuit. This Court "reached the same conclusion" as the Federal Circuit in *Christianson v. Colt Indus. Operating Corp.*, 822 F.2d 1544, 1552-3, (Fed. Cir. 1987). *Aerojet-General Corp.*, 895 F.2d at 741.

did include claims of patent infringement. In *Aerojet*, the Federal Circuit indicated a need to clarify its jurisdiction under the distinct circumstance in which the patent laws constitute the basis of a nonfrivolous compulsory counterclaim. *Id.* at 741. After analyzing the "well-pleaded complaint rule" and the legislative history of 28 U.S.C. §1295, the Federal Circuit held:

> Because [defendant's] compulsory counterclaim for patent infringement is a separate, nonfrivolous claim, having its own section 1338 jurisdictional basis independent of the jurisdictional basis of the complaint, the district court's subject matter jurisdiction in this case was based "in part" on section 1338. Accordingly, this court would have appellate subject matter jurisdiction over an appeal from a final judgment in this case, 28 U.S.C. §1295. . . .

Id. at 745. Further, a comment by Justice Stevens in his *Christianson* concurrence is particularly supportive of the Federal Circuit's exercise of jurisdiction based upon a counterclaim: "the 'well-pleaded complaint' rule helps ferret out claims from issues, and says nothing about whether such separation should be made only on the basis of the original complaint." *Christianson*, 486 U.S. at 820 n. 1 (Stevens, J., concurring).

Petitioner Holmes also alleges that the Federal Circuit circumvents this Court's rulings in other cases. Yet Holmes consistently presents out-of-context statements and fails to acknowledge the significance of the procedural questions at issue in those cases. The decisions cited by Holmes relate to this Court's long standing precedent regarding removal jurisdiction, in particular state cases being removed to federal court. For example, Holmes cites *Franchise Tax Board v. Construction Laborers Vacation Trust*, 463 U.S. 1 (1983), as support for Holmes's proposition that the Federal Circuit improperly considered a counterclaim as sufficient to

find that the civil action "arises under" federal patent law. Holmes misleadingly states that the *Franchise Tax* Court held that it "simply is not the law" to consult the answer as well as the complaint in determining whether a case arises under federal law. Holmes Br. at 9. That holding, however, is incorrect. In fact, to "create" this holding Holmes *added its own language* to dicta in a footnote. The complete text actually *supports* the actions of the Federal Circuit:

> It is possible to conceive of a rational jurisdictional system in which the answer as well as the complaint would be consulted before a determination was made whether the case "arose under" federal law, or in which original and removal jurisdiction were not coextensive.

Franchise Tax, 463 U.S. at 10 n.9.

Franchise Tax and other cases cited by Holmes address the issue of removal jurisdiction.[3] As the Federal Circuit determined, the issue of removal is clearly distinguishable from a case that is already in federal court. Citing *Franchise Tax*, the Federal Circuit stated that the basic purpose of the well-pleaded complaint rule is to avoid "'potentially serious federal-state conflicts.'" *Aerojet-General Corp.*, 895 F.2d at 743 (citing *Franchise Tax*, 463 U.S. at 10). But "no such conflicts are possible here, where we deal only with the direction of an appeal in a case already properly in the federal court system." *Id.* at 743-744. In our case, the facts are in line with *Aerojet*, where Holmes filed its complaint in federal district court, and Vornado properly appealed to the Federal Circuit based on the pending patent infringement counterclaim.

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[3] Other "removal" cases cited by Holmes include *Caterpillar Inc. v. Williams*, 482 U.S. 386 (1987), *Great Northern Ry. Co. v. Alexander*, 246 U.S. 276 (1918), and *Merrell Dow Pharm. Inc. v. Thompson*, 478 U.S. 804 (1986).

Far from being a renegade appellate court, the Federal Circuit has carefully reviewed the prior decisions of this Court regarding appellate jurisdiction, and has concluded:

> In all events, the Supreme Court did not hold in *Christianson*, or in any other case, that for all cases and circumstances only the complaint and never a counterclaim can serve as the basis of district court jurisdiction, and, under section 1295, the basis of district court jurisdiction is for this court an appeal-directing mechanism.

Aerojet-General Corp. 895 F.2d at 742. This conclusion is certainly relevant to Holmes's petition before this Court.

Because the Federal Circuit's exercise of jurisdiction followed the law of this Court, Holmes's petition for writ of certiorari should be denied.

B. The Federal Circuit's exercise of jurisdiction conforms with decisions of other United States courts of appeals.

The Federal Circuit's decision to hear Vornado's appeal No. 00-1286 accords with other circuit courts' jurisdictional decisions. In *Aerojet*, the Federal Circuit pointed to instances where different circuit courts repeatedly retained jurisdiction and adjudicated a counterclaim having its own jurisdictional basis even where the circuit court had no jurisdiction over the complaint:

> *Rengo Co. v. Molins Mach. Co.*, 657 F.2d 535, 539, (3d Cir.), *cert. denied*, 454 U.S. 1055 (1981) ("a jurisdictional defect in the complaint will not preclude adjudication of a counterclaim over which the court has an independent basis [§1338] of jurisdiction"); *Pioche Mines Consol., Inc. v. Fidelity-Philadelphia Trust Co.*, 206 F.2d 336, 336-37 (9th Cir.), *cert. denied*, 346 U.S. 899 (1953) ("counterclaim persists where it is supported by an independent basis [diversity] for jurisdiction," even though complaint dismissed); *Isenberg v. Biddle*, 125 F.2d 741, 743 (D.C. Cir. 1941) (where independent jurisdictional basis [trading with enemy act] exists for counterclaim that seeks affirmative relief, "it is sustainable without regard to what happens to the original complaint").

Aerojet-General Corp., 895 F.2d at 742-3. The Federal Circuit also discussed *National Research Bureau, Inc. v. Bartholomew*, 482 F.2d 386, 389 (3d Cir. 1973), where the 3rd Circuit held that a counterclaim supported by independent jurisdiction [anti-trust] afforded the district court federal jurisdiction: "But where, as here, jurisdiction is independent, the counterclaim must be allowed to proceed without regard to the fate of the original claim, and it was error to dismiss it out of hand." *Aerojet-General Corp.*, 895 F.2d at 743.

Petitioner Holmes cites to several circuit courts of appeal cases alleging that these circuit courts support Holmes's theory that counterclaims do not change the status of a civil action as one "arising under" federal law. Yet these cases, *Metro Ford Truck Sales, Inc. v. Ford Motor Co.*, 145 F.3d 320 (5th Cir. 1998), *FDIC v. Elefant*, 790 F.2d 661 (7th Cir. 1986), and *Takeda v. Northwestern Nat'l Life Ins. Co.*, 765 F.2d 815 (9th Cir. 1985), again deal with removal jurisdiction under 28 U.S.C. §1441 and are therefore distinguished from the facts of our case. In *Metro Ford*, the 5th Circuit held that a defendant's third-party claim alleging a federal question did not bring it within purview of removability. *Metro Ford*, 145 F.3d at 326-7. In *Elefant*, the 7th Circuit also addressed the propriety of removal of a case. *Elefant*, 790 F.2d at 667. Finally, the 9th Circuit held that removability cannot created by a defendant's federal question counterclaim. *Takeda*, 765 F.2d at 822.

The Federal Circuit's jurisdiction over Vornado's appeal was in conformity with the decisions of other United States courts of appeals. Holmes's petition for writ of certiorari should therefore be denied.

II. THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT HAS FOLLOWED THE ACCEPTED AND USUAL COURSE OF JUDICIAL PROCEEDINGS

A. The Federal Circuit's exercise of jurisdiction over the appeal follows the Federal Circuit's usual course of proceeding.

The Federal Circuit exercises jurisdiction over an appeal when there is a pending, nonfrivolous patent infringement counterclaim. *DSC Communications Corp. v. Pulse Communications, Inc.*, 170 F.3d 1354, 1359 (Fed. Cir. 1999). In *DSC*, the Federal Circuit held "that any counterclaim raising a nonfrivolous claim of patent infringement is sufficient to support this court's appellate jurisdiction." *Id.* It is undisputed that Vornado's answer in the district court action contains a counterclaim charging Holmes with infringement of Vornado's '551 patent. Therefore, in exercising jurisdiction over the Vornado appeal, the Federal Circuit was merely following its own usual course of judicial proceeding.

In cases where the Federal Circuit found that it lacked jurisdiction to hear an appeal, the factual circumstances were significantly different from the case at hand. Specifically, the Federal Circuit will not exercise jurisdiction over non-patent claims in cases where—unlike in *this* case—patent counts have been dismissed without prejudice or otherwise permanently removed from the case *prior* to appeal of the non-patent issues. For example, in

Nilssen v. Motorola, 203 F.3d 782 (Fed. Cir. 2000), the Federal Circuit ruled that it lacked jurisdiction to hear an appeal of a judgment on state-law claims because patent law claims that had previously been in the case had been dismissed without prejudice so that those claims could be tried in a separate action. Critically, the *Nilssen* court stressed that it lacked jurisdiction *only* because the patent claims had been dismissed without prejudice:

> Had the patent claims remained in the case, we surely would have had jurisdiction to review the district court's decision on both the patent and the state law claims. . . . However, when the patent claims were dismissed without prejudice under Rule 41(b), the district court's jurisdiction over the remaining state law claims ceased to be based, either in whole or in part, on § 1338.

Nilssen, 203 F.3d at 784. In this case, by contrast, Vornado's patent infringement claim *remained pending* in the district court. Thus, following *Nilssen*, the Federal Circuit had jurisdiction to entertain this appeal.

Similarly, in *Gronholz v. Sears, Roebuck & Co.*, 836 F.2d 515 (Fed. Cir. 1987), the Federal Circuit ruled that it lacked jurisdiction to hear an appeal of a judgment on a trade secret claim because the district court had previously dismissed without prejudice a patent infringement claim that had been part of the case. The *Gronholz* court concluded that "Gronholz's dismissal of the patent claim constituted an amendment of his complaint. That amendment left a complaint with a single, non-patent claim for unfair competition." *Gronholz*, 836 F.2d at 518. The same is true of *Schwartzkopf Development Corp. v. Ti-Coating, Inc.*, 800 F.2d 240, 245 (Fed. Cir. 1986), where the Federal Circuit ruled that it lacked jurisdiction because "[w]hen the counterclaim including the § 1338 counts was dismissed on the pleadings, without opposition by the counter-claimant, it left no legacy

on which to base appellate jurisdiction in this court." Finally, in *USM Corp. v. SPS Technologies, Inc.*, 770 F.2d 1035 (Fed. Cir. 1985), the Federal Circuit held that it lacked jurisdiction to hear an appeal of judgment on non-patent issues where the patent infringement counts that originally had been part of the case had been finally resolved in an appeal to the Seventh Circuit (prior to the creation of the Federal Circuit): "[I]n the instant appeal, all § 1338 patent claims have been finally adjudicated and there is no possibility that these claims will be reopened in the ultimate resolution of this extended litigation." *USM Corp.*, 770 F.2d at 1037. This is obviously not the case here, since Vornado's patent infringement counterclaim is still pending in the district court.

Indeed, the Federal Circuit cases cited above establish conclusively that the Federal Circuit had proper jurisdiction to hear the appeal, because Vornado's patent infringement counterclaim is still pending in the district court. Therefore, the Federal Circuit was correctly following its normal procedure in exercising jurisdiction over the appeal, and Holmes's petition for writ of certiorari should be denied.

B. The Federal Circuit properly exercised jurisdiction over a partial final judgment under Fed. R. Civ. P. 54(b).

Holmes attempts to cloud the propriety of the Federal Circuit's jurisdiction by stating that even if the Federal Circuit had jurisdiction based upon a patent law counterclaim, there remains the question of whether Rule 54(b) can be used to direct an appeal to a particular circuit. Holmes erroneously relies on *Denbicare U.S.A. v. Toys "R" Us, Inc.*, 84 F.3d 1143 (9th Cir. 1996) for the principle that parties may not "forum-shop" between the Federal Circuit and other regional circuit courts for appeal. Holmes, however, materially misstates the holding of *Denbicare*. The Ninth Circuit ruled in *Denbicare* that an appeal of non-patent

claims did not fall within the Federal Circuit's exclusive jurisdiction when those claims had been *dismissed* before the Rule 54(b) judgment and appeal on the non-patent claims:

> Because the district court both *dismissed all patent claims from this case* and separated its decision on the merits of the nonpatent claims through the grant of a partial final judgment under Rule 54(b), [the Ninth Circuit has] appellate jurisdiction over the partial final judgment.

84 F.3d at 1148 (9th Cir. 1996) (emphasis supplied). Holmes misleadingly omits the Ninth Circuit's express statement that its decision hinged on the patent claims having been *dismissed* prior to the appeal—a circumstance that does not exist in this case.[4] In this case Vornado asserted both patent and trade dress claims against Holmes, and the International Trade Commission initiated an investigation. Vornado's district court patent counterclaim to Holmes's later filed district court action was still pending during the appeal to the Federal Circuit. The Federal Circuit, therefore, was wholly within the bounds of Rule 54(b) in exercising jurisdiction over the appeal.

C. The Federal Circuit follows the "well-pleaded complaint" rule and the intent of Congress.

Although Holmes contends throughout its petition that the Federal Circuit has recklessly disregarded the well-

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[4] In *Atari, Inc. v. JS&A Group, Inc.*, 747 F.2d 1422, 1434 (Fed. Cir. 1984) (*en banc*) the Federal Circuit reviewed the Senate Report language that Holmes quotes at page 15 of its brief and squarely rejected the argument that mere separation of the trial or appeal of patent and non-patent issues in a case deprives this Court of jurisdiction over the non-patent issues. Where, as here, the patent claim is not a "trivial patent claim . . . manipulatively joined to gain the jurisdiction of the court" a Rule 54(b) judgment does not strip the Federal Circuit of jurisdiction over the non-patent issues. *Id.*

pleaded complaint rule, the Federal Circuit's commentary in *Aerojet* shows that it has carefully considered this rule. Further, the Federal Circuit has thoughtfully concluded, *in light of* the well-pleaded complaint rule and the words of Congress, that a non-frivolous counterclaim for patent infringement invokes its jurisdiction.

Petitioner's argument that the Federal Circuit has an "aberrant" interpretation of the well-pleaded complaint rule rests on semantics by focusing on the word "complaint" in the phrase "well-pleaded *complaint* rule." The Federal Circuit, however, provided sound reasoning regarding the importance of relying on substance rather than semantics: "It would seem at best incongruous to hold that we have appellate jurisdiction when a well-pleaded patent infringement claim is the basis of a pleading labeled 'complaint' but not when the identical well-pleaded claim is the basis of a pleading labeled 'counterclaim.'" *Aerojet-General Corp.*, 895 F.2d at 742. The Federal Circuit acknowledges that the distinction between complaints and counterclaims may be important in other contexts (such as removal), but such a distinction has "no meaningful role in governing the direction of the appeal under the unique statute that created this court. . . ." *Id.*

The Federal Circuit has also looked to this Court's jurisdictional decisions employing the "well-pleaded complaint rule" and found that this Court's focus on the rule was particularly appropriate in *Christianson*, where there was *no counterclaim* arising under a federal patent statute. *Id.* at 741.

In *Aerojet*, after careful analysis of whether the well-pleaded complaint rule applied, the Federal Circuit specifically found no conflict between a proper application of the well-pleaded complaint rule and a holding that it had appellate jurisdiction when a nonfrivolous well-pleaded compulsory patent law counterclaim is present in a case originally and properly filed in a district court. *Id.*

The Federal Circuit believed it was well within accepted judicial procedure, as mandated by Congress and this Court in exercising jurisdiction over the Vornado appeal, where patent infringement counterclaims were still pending. The Federal Circuit opined that "using the ramifications of the well-pleaded complaint rule to limit our appellate jurisdiction in every case by an exclusive focus on the complaint and a compelled disregard of compulsory counterclaims for patent infringement, would disserve the intent of Congress in creating this court."[5] *Id.* at 744. The Vornado appeal No. 00-1282 contains precisely the non-frivolous, compulsory patent counterclaim that the Federal Circuit carefully reasoned should render an appeal to be subject to its jurisdiction.

[5] "This court is charged with the duty of increasing doctrinal stability in the field of patent law." *Chemical Engineering Corp v. Marlo, Inc.*, 754 F.2d 331, 333 (Fed. Cir. 1984) (construing S.Rep. No. 97-275, 97th Cong., 2d Sess. 2-7, *reprinted in* 1982 U.S.Code Cong. & Ad.News 11, 12-17).

CONCLUSION

For the reasons set forth above, Petitioner's writ of certiorari should be denied.

Respectfully submitted,

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No. 01-408

IN THE

Supreme Court of the United States

THE HOLMES GROUP, INC.,

Petitioner,

—against—

VORNADO AIR CIRCULATION SYSTEMS, INC.,

Respondent.

ON PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

REPLY BRIEF

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CORPORATE DISCLOSURE STATEMENT

Petitioner's corporate disclosure statement was set forth at page *iii* of its Petition for a Writ of Certiorari, and there are no amendments to that statement.

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Respondent's Brief in Opposition does not controvert that this case raises — clearly and starkly — the questions of appellate jurisdiction identified in the Petition.

Respondent's Brief in Opposition also does not controvert that the jurisdictional questions raised by this case are of fundamental and general significance, and affect literally every federal court plaintiff whose adversary could assert a patent law counterclaim of any nature.[1]

At issue in this case is the continuing viability of a long-settled principle:

> Of course, the party who brings a suit is master to decide what law he will rely upon, and therefore does determine whether he will bring a "suit arising under" the patent or other law of the United States by his declaration or bill. That question *cannot depend upon the answer. . . .*

The Fair v. Kohler Die & Speciality Co., 228 U.S. 22, 25 (1913) (Holmes J.) (emphasis added).

---

1. Respondent asserts that its counterclaim against Petitioner in this case was "compulsory" (Resp. Br. at 3). The Federal Circuit has made clear, however, that its claimed jurisdiction under 28 U.S.C. § 1295(a)(1) is not limited to cases in which a defendant's answer includes a "compulsory" patent counterclaim falling within Fed. R. Civ. P. 13(a), but also extends to cases in which a defendant's answers includes a "permissive" patent counterclaim falling within Fed. R. Civ. P. 13(b). *See DSC Communications Corp. v. Pulse Communications, Inc.*, 170 F.3d 1354 (Fed. Cir.), *cert. denied*, 528 U.S. 923 (1999). Thus, even assuming, for purposes of argument, that Respondent's counterclaim were properly characterized as "compulsory," it is clear that no such assumption formed any basis of the Federal Circuit's decision in this case.

The Court of Appeals for the Federal Circuit has improperly rejected the above-quoted principle,[2] and has thereby acted to displace vast sectors of regional circuit jurisdiction over appeals from cases arising under antitrust, contract, copyright, trademark, and myriad other laws, both state and federal.

It is uncontroverted that Petitioner commenced this civil action[3] and decided, very deliberately, to rely on the law and

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2. Respondent's Brief in Opposition notably fails to cite *The Fair* and makes no attempt to reconcile the decision below with *The Fair* or any of this Court's other precedents holding that "the plaintiff is absolute master of what jurisdiction he will appeal to." *Merrell Dow Pharm. Inc. v. Thompson*, 478 U.S. 804, 809 n.6 (1986) (quoting *Healy v. Sea Gull Specialty Co.*, 237 U.S. 479, 480 (1915) (Holmes, J.)

3. The instant Case No. 01-408 was commenced by Petitioner as an original civil action in the U.S. District Court for the District of Kansas at Wichita, where Respondent is headquartered. The instant case is entirely separate and distinct from the terminated ITC investigation referred to on pages 2-3 of Respondent's Brief in Opposition (see Petition at 3 n.1).

While extraneous to the jurisdictional issues presented by the Petition, it may be noted that: (1) Respondent sought, and was denied, a stay of proceedings in this action pending determination of the ITC investigation; (2) after summary judgment was granted to Petitioner in this action, Respondent moved for voluntary dismissal of the ITC investigation which was then terminated in June 2000; and (3) contrary to Respondent's suggestion (Resp. Br. at 3 n.1), Petitioner sought (and was denied; see Petition at 3 n.1) a stay of the ITC proceedings only insofar as they threatened to oust the District Court of jurisdiction to adjudicate Petitioner's claims arising under the Lanham Act. Respondent has never pursued its alleged patent counterclaim in the ITC or in the District Court.

a final judgment of the Court of Appeals for the Tenth Circuit,[4] under which this Respondent had made false and actionable statements to retailers on the eve of a major housewares industry trade show. Petitioner sought, not merely a "declaration" as suggested by Respondent (Resp. Br. at 3), but an injunction against false advertising by Respondent which the District Court granted.[5]

On March 8, 2000, the District Court granted summary judgment in favor of Petitioner on its First Cause of Action, holding that Petitioner's "sale of its fan and heater products does not infringe any valid or enforceable 'trade dress' claimed by [Respondent] under 15 U.S.C. §§ 1051 *et seq.*" *Holmes Group, Inc. v. Vornado Air Circulation Sys., Inc.*, 93 F. Supp. 2d 1140, 1140-41 (D. Kan. 2000). The District Court's summary judgment was then severed from the remainder of the case pursuant to Fed. R. Civ. P. 54(b), as was done in the case of *Denbicare U.S.A. Inc. v. Toys "R" Us, Inc.*, 84 F.3d 1143 (9th Cir.), *cert. denied*, 519 U.S. 873 (1996). But in direct conflict with the Ninth Circuit's decision in *Denbicare*,[6] the Respondent appealed the District Court's

---

4. *Vornado Air Circulation Sys., Inc. v. Duracraft Corp.*, 58 F.3d 1498 (10th Cir. 1995), *cert. denied*, 516 U.S. 1067 (1996).

5. The preliminary injunction which the District Court issued against Respondent on January 4, 2000, remains in effect to this day.

6. Contrary to Respondent's suggestion (Resp. Br. at 12-13), the decision below conflicts squarely with the Ninth Circuit's decision in *Denbicare*. In *Denbicare*, the Ninth Circuit exercised appellate jurisdiction to hear a partial final judgment of non-patent claims entered pursuant to Fed. R. Civ. P. 54(b), notwithstanding that the defendant had asserted a counterclaim arising under federal patent law and there remained pending, in the District Court, a live controversy whether the defendant was entitled to do so. 84 F.3d at 1146-47. The Ninth Circuit exercised appellate jurisdiction in *Denbicare*, not because all patent claims had been "dismissed" as

(Cont'd)

"trade dress" judgment to the Federal Circuit rather than the Tenth Circuit.

It is uncontroverted the District Court's final judgment in this case does not adjudicate, directly or indirectly, any claim "arising under" federal patent law, or even any question of federal patent law. It is also uncontroverted that Petitioner's complaint in the District Court did not allege any claim "arising under" federal patent law. And yet Petitioner — the prevailing plaintiff and judgment-winner in the District Court — has had its Lanham Act judgment summarily vacated by the Court of Appeals for the Federal Circuit, on a theory that regional circuit jurisdiction over Petitioner's suit was somehow cut off by the Respondent's service of an answer to Petitioner's complaint which contained a patent counterclaim.

In its Brief in Opposition, the Respondent does not suggest that the Federal Circuit's exercise of jurisdiction in this case was unusual or based on any special facts peculiar to the present case. On the contrary, the Respondent affirmatively argues that the decision below "follows the Federal Circuit's usual course of proceeding" (Resp. Br. at 10).

The present case thus clearly — and starkly — draws in controversy what Respondent acknowledges is the Federal Circuit's recently-adopted, "usual course" of exercising

(Cont'd)

wrongly argued by Respondent, but because the partial final judgment in question — which disposed of no patent claim — fell outside both the clear language and the legislative intent behind 28 U.S.C. § 1295(a)(1). *Id.* at 1147-48. *See also Unique Concepts, Inc. v. Manuel*, 930 F.2d 573, 575 (7th Cir. 1991) (Easterbrook, J.) (noting but not deciding question "whether Rule 54(b) can be used to direct an appeal to a particular circuit").

appellate jurisdiction under 28 U.S.C. § 1295(a)(1) based on the contents of a defendant's answer, notwithstanding that of a plaintiff's well-pleaded complaint may state no claim "arising under" federal patent law. *See DSC Communications Corp. v. Pulse Communications, Inc.*, 170 F.3d 1354 (Fed. Cir.), *cert. denied*, 528 U.S. 923 (1999). Respondent has not controverted that the Federal Circuit's interpretation of 28 U.S.C. § 1295(a)(1) impacts any and every type of federal or diversity case in which a defendant might assert either a permissive or a compulsory counterclaim purportedly arising under federal patent law.

While arguing that the Federal Circuit's interpretation of 28 U.S.C. § 1295(a)(1) "adheres the sound reasoning of this court" (Resp. Br. at 5), the Respondent conspicuously fails to cite the principle that "the plaintiff is absolute master of what jurisdiction he will appeal to." *Healy v. Sea Gull Speciality Co.*, 237 U.S. 479, 480 (1915) (Holmes, J.), *quoted in Merrell Dow Pharm. Inc. v. Thompson*, 478 U.S. 804, 809 n.6 (1986). The Federal Circuit's interpretation of the "well-pleaded complaint rule" is antithetical to *Healy*, *Merrell Dow*, *The Fair*, and other decisions of this Court cited in the Petition (Petition at 6 n.3, 10-13), and conflicts with that of every other Court of Appeals which has ever considered whether a defendant's counterclaim can change whether a plaintiff's lawsuit is one "arising under" federal law for jurisdictional purposes. *E.g.*, *Takeda v. Northwestern Nat'l Life Ins. Co.*, 765 F.2d 815, 821-22 (9th Cir. 1985).

Respondent suggests (Resp. Br. at 6-9) that the "well-pleaded complaint rule" is somehow limited to "removal jurisdiction" (*id.* at 6) or " 'removal' cases" (*id.* at 7 n.3). But as was noted in the Petition (Petition at 13 n.6), the distinction suggested by Respondent has no basis in this Court's precedents. "The well-pleaded complaint rule applies to the original jurisdiction of the district courts as well as to

their removal jurisdiction." *Franchise Tax Bd. v. Constr. Laborers Vacation Trust*, 463 U.S. 1, 10 n.9 (1983).[7]

Thus, in *Christianson v. Colt Indus. Operating Corp.*, 486 U.S. 800, 808-09 (1988), this Court cited and relied on what Respondent calls "removal cases" (Resp. Br. at 7 n.3) in the course of holding that the appellate jurisdiction of the Federal Circuit was circumscribed by the "arising under" jurisprudence developed by this Court in the context of cases involving both removal under 28 U.S.C. § 1441 and original federal question jurisdiction under 28 U.S.C. § 1331.

Respondent attempts to distinguish the clear language and holding of *Christianson* by reference to certain comments made in a concurring opinion in that case (Resp. Br. at 6). The cited concurrence, however, did not command a majority of the Court, which rejected the "policy" argument re-advanced by Respondent here (486 U.S. at 813-14):

> Colt might be correct (although not clearly so) that Congress' goals would be better served if the Federal Circuit's jurisdiction were to be fixed "by reference to the case actually litigated," rather than by an ex ante hypothetical assessment of the elements of the complaint that might have been dispositive. . . . Congress determined the relevant focus, however, when it granted jurisdiction to the Federal Circuit over "an appeal from . . . a district court . . . if the jurisdiction of that court was based

7. Contrary to Respondent's assertion (Resp. Br. at 7), the Petitioner quotes accurately from this Court's decision in *Franchise Tax*. The Court in *Franchise Tax* noted that commentators had proposed that "some mechanism be established to permit removal of cases in which a federal defense may be dispositive," but that "those proposals have not been adopted." 463 U.S. at 10 n.9. That is to say, as Petitioner originally noted (Petition at 9), the position urged by Respondent in this case is simply not the law.

> on Section 1338." 28 U.S.C. § 1295(a)(1) (emphasis added).
>
> Since the District Court's jurisdiction is determined by reference to the well-pleaded complaint, not the well-tried case, the reference to the Federal Circuit jurisdiction must be the same. The legislative history of the Federal Circuit's jurisdictional provisions confirms that focus. *See, e.g.*, H.R. No. 97-312, *supra*, at 41 (cases fall within the Federal Circuit's patent jurisdiction "in the same sense that cases are said to 'arise' under federal law for purposes of federal question jurisdiction").

The Federal Circuit thus erred in concluding that a well-pleaded complaint controls the existence of "arising under" jurisdiction in the original jurisdiction and removal contexts, but not in the context of appellate jurisdiction under 28 U.S.C. § 1295(a)(1). *See Aerojet-General Corp. v. Machine Tool Works, Oerlikon-Buehrle Ltd.*, 895 F.2d 736, 739-40 & n.4 (Fed. Cir. 1990) (en banc). It is undoubtedly true, as stated by Respondent, that in taking jurisdiction of Respondent's appeal in this case, the Federal Circuit followed "its own usual course of judicial proceeding" and its "normal procedure" (Resp. Br. at 10, 12). But that fact supports granting, not denying, the Petition.

In *Christianson*, this Court re-stated its long-held rule that "a case raising a federal patent-law defense does not, for that reason alone, 'arise under' patent law, 'even if the defense is anticipated in the plaintiff's complaint, and even if both parties admit that the defense is the only question truly at issue in the case.' " *Christianson*, 486 U.S. at 809 (quoting *Franchise Tax Bd.*, 463 U.S. at 14). Thus for example, an action for breach of a contract to pay royalties

on the sale of products embodying a patented invention is not one "arising under" federal patent law; and this is so even if the defendant asserts, by way of defense, that the allegedly licensed patent is invalid. *E.g.*, *Pratt v. Paris Gaslight & Coke Co.*, 168 U.S. 255, 259 (1897). But under the Federal Circuit's re-interpretation of the "well-pleaded complaint rule," a defendant sued for breach of contract can readily manufacture Federal Circuit jurisdiction by including in its answer, not merely an affirmative defense of invalidity, but a counterclaim for a declaratory judgment of invalidity. Respondent's suggested distinction between patent law "defenses" and "counterclaims" finds no support in this Court's decisions, and is illusory besides.

Nor can the decision below be justified on the basis of authorities holding that a jurisdictional defect in a plaintiff's complaint will not preclude adjudication of a counterclaim which has an independent basis of jurisdiction (Resp. Br. at 8-9). Petitioner was the prevailing plaintiff in the District Court. No question is presented whether a patent counterclaim would support Federal Circuit jurisdiction if plaintiff's claims had all been defective.

CONCLUSION

For the reasons set forth above and in Holmes's original petition, a writ of certiorari should issue to review the judgment of the Court of Appeals for the Federal Circuit.

Respectfully submitted,

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October 23, 2001

(8)

Supreme Court, U.S.
FILED
JAN 3 2002
CLERK

No. 01-408

IN THE

Supreme Court of the United States

THE HOLMES GROUP, INC.,

Petitioner,

—against—

VORNADO AIR CIRCULATION SYSTEMS, INC.,

Respondent.

ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

JOINT APPENDIX

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PETITION FOR CERTIORARI FILED SEPTEMBER 4, 2001
CERTIORARI GRANTED NOVEMBER 8, 2001

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APPENDIX A — RELEVANT DOCKET ENTRIES OF THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

HOLMES GROUP INC V VORNADO AIR CIR

00-1286

U.S. District Court
District of Kansas
Senior Judge Wesley E. Brown

Lower Court/Agency #: 99-CV-1499
Notice of Appeal and Certified List Received: 04/07/00
Notice of Appeal Filed: 03/27/00
Docketed and Notice Sent to Parties: 04/10/00[AMT]
Certified List Filed: 04/10/00

Fee Paid: 03/27/00
Fee Amount: 105.00
Receipt No: 20836

Plaintiff-Appellee
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Appendix A

1. CERTIFICATE OF INTEREST FOR THE APPELLANT(S), VORNADO AIR CIRCULATION SYSTEMS INC. (HS-04/26/00) FILED: 04/26/00. (EOD 04/27/00 BY FRT) 00-1286

THE HOLMES GROUP, INC. [APPELLANT] — BRIEF FOR DEFENDANT-APPELLANT (MS-05/08/00). FILED: 05/08/00. [001312] (EOD 05/15/00 BY EBG) 00-1286

THE HOLMES GROUP, INC. [APPELLEE] — BRIEF FOR PLAINTIFF-APPELLEE (MS-06/19/00). FILED: 06/19/00. ENTRY OF APPEARANCE NOTICE ISSUED. [001350] (EOD 10/19/00 BY KP_) 00-1286

VORNADO AIR CIRCULATION SYSTEMS, INC. [APPELLANT] — REPLY BRIEF FOR DEFENDANT-APPELLANT (MS-07/06/00). FILED: 07/06/00. [001361] (EOD 07/10/00 BY CDG) 00-1286

VORNADO AIR CIRCULATION SYSTEMS, INC. [APPELLANT] — JOINT APPENDIX (9 VOLUMES) (HS-07/13/00). FILED: 07/13/00. [001372] (EOD 07/20/00 BY SPP) 00-1286

2. RECD APPELLANT'S CITATION OF ADDITIONAL AUTHORITY. (SENT TO PANEL) (HS-10/20/00) RECEIVED: 10/20/00 (EOD 10/20/00) (KSH) 00-1286

3. October 23, 2000 NOTICE OF CALENDARING issued. Panel 0012D on December 5, 2000 00-1286 (KSH)

Appendix A

December 5, 2000 Submitted after ORAL ARGUMENT by Peter W. Gowdey and James W. Dabney. (MAYER, NEWMAN and SCHALL) 00-1286 (KSH)

4. ORDERED: CASE IS STAYED PENDING THE OUTCOME OF TRAFFIX DEVICES, INCORPORATED V MARKETING DISPLAYS, INC.. NO. 99-1571. IN THE SUPREME COURT OF THE UNITED STATES. THE PARTIES ARE DIRECTED TO FILE A JOINT REPORT ON THE STATUS OF THE CASE . . . NO LATER . . . (MS-12/08/00) RECEIVED: 12/08/00 (EOD 12/08/00) (KSH) 00-1286

5. Appellant — MOTION FOR LEAVE TO WITHDRAW AS COUNSEL AND NOTIFICATION OF CHANGE OF AFFILIATION OF COUNSEL. (MS-03/23/01) FILED: 03/26/01. ACTION ON MOTION (6): GRANTED. BY MERITS PANEL. FILED: 03/28/01. (EOD 03/28/01 BY LP) 00-1286

7. JOINT STATUS REPORT FROM THE PARTIES. (SENT TO PANEL (MS-04/20/01) RECEIVED: 04/20/01 (EOD 04/23/01) (LP) 00-1286

8. ORDER: IT IS ORDERED THAT THE MARCH 27, 2001 JUDGMENT OF THE DIST COURT IS VACATED. THE CASE IS REMANDED TO THE US DCT FOR FURTHER PROCEEDINGS. EACH SIDE SHALL BEAR ITS OWN COSTS. FOR THE COURT. BY: CLERK. (MS-06/05/01) FILED: 06/05/01 (EOD 06/05/01) (LP) 00-1286

Appendix A

ISSUED AS A MANDATE TO THE DISTRICT COURT: JUNE 26, 2001.

A CERTIFIED COPY OF THE MANDATE WAS SERVED ON THE CLERK, U.S. DISTRICT COURT, D/KS: AND ON HON. WESLEY E. BROWN, U.S. DISTRICT COURT, D/KS. 00-1286 (amt, 6/26/01)

PETITION FOR WRIT OF CERTIORARI FILED 09/04/01, SUPREME COURT #: 01-408 (EOD 09/13/01 BY BG) 00-1286

APPENDIX B — RELEVANT DOCKET ENTRIES OF THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF KANSAS

U.S. District Court
U.S. District Court for the District of Kansas (Wichita)

CIVIL DOCKET FOR CASE #: 99-CV-1499

Holmes Group Inc v. Vornado Air
Filed: 12/08/99
Assigned to: Senior Judge Wesley E. Brown
Jury demand: Plaintiff
Referred to: Magistrate Judge Donald W. Bostwick
Demand: $0,000
Nature of Suit: 840
Lead Docket: None
Jurisdiction: Federal Question
Dkt # in FED CIRC-Vornado : is :00- -01286
Dkt # in Fed Circ-Vornado : is :00- -01177

Cause: 28:1331
Fed. Question: Trademark

HOLMES GROUP, INC., THE
plaintiff

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12/8/99	1	COMPLAINT; Summons(es) issued; designation of place of trial – Wichita, KS (case referred to Magistrate Judge Donald W. Bostwick) (vlw) [Entry date 12/09/99]
12/8/99	—	FILING FEE PAID on 12/8/99 in the amount of $150.00; Receipt # 20265 (vlw) [Entry date 12/09/99]
12/9/99	2	DESIGNATION OF PLACE OF TRIAL – trial to be held in Wichita, KS by plaintiff (ef) [Entry date 12/10/99]
12/10/99	3	SUMMONS RETURNED executed upon defendant Vornado Air on 12/9/99 (ef) [Entry date 12/13/99]

Appendix B

12/17/99	4	MOTION to expedite discovery by plaintiff Holmes Group Inc referred to Senior Judge Wesley E. Brown (vlw) [Entry date 12/20/99]
12/17/99	5	MOTION for preliminary injunction by plaintiff Holmes Group Inc referred to Senior Judge Wesley E. Brown (vlw) [Entry date 12/20/99]
12/17/99	6	DECLARATION of Paul J. Powers in support of pltf's motion for preliminary injunction referred to Senior Judge Wesley E. Brown [5-1] (vlw) [Entry date 12/20/99] [Edit date 12/20/99]
12/17/99	7	DECLARATION of Francis E. Marino in support of pltf's motion for preliminary injunction referred to Senior Judge Wesley E. Brown [5-1] (vlw) [Entry date 12/20/99]
12/17/99	8	DECLARATION of James W. Dabney in support of pltf's motion for preliminary injunction referred to Senior Judge Wesley E. Brown [5-1] (vlw) [Entry date 12/20/99] [Edit date 12/20/99]
12/17/99	9	EXHIBIT 1C by James W. Dabney in support of his declaration [8-1] in support of pltf's motion for preliminary injunction referred to Senior Judge Wesley E. Brown [5-1] (filed under separate cover) (vlw) [Entry date 12/20/99] [Edit date 01/31/00]

Appendix B

12/17/99	10	EXHIBIT 1B by James W. Dabney in support of his declaration [8-1] in support of pltf's motion for preliminary injunction referred to Senior Judge Wesley E. Brown [5-1] (filed under separate cover) (vlw) [Entry date 12/20/99]
12/17/99	11	EXHIBIT 1C by James W. Dabney in support of his declaration [8-1] in support of pltf's motion for preliminary injunction referred to Senior Judge Wesley E. Brown [5-1] (filed under separate cover) (vlw) [Entry date 12/20/99]
12/17/99	12	EXHIBIT 1C by James W. Dabney in support of his declaration [8-1] in support of pltf's motion for preliminary injunction referred to Senior Judge Wesley E. Brown [5-1] (filed under separate cover) (vlw) [Entry date 12/20/99]
12/17/99	13	EXHIBIT 1D by James W. Dabney in support of his declaration [8-1] in support of pltf's motion for preliminary injunction referred to Senior Judge Wesley E. Brown [5-1] (filed under separate cover) (vlw) [Entry date 12/20/99]
12/17/99	14	EXHIBIT 1E by James W. Dabney in support of his declaration [8-1] in support of pltf's motion for preliminary injunction referred to Senior Judge Wesley E. Brown [5-1] (filed

Appendix B

under separate cover) (vlw) [Entry date 12/20/99]

12/17/99	15	EXHIBIT 1G (video) by James W. Dabney in support of his declaration [8-1] in support of pltf's motion for preliminary injunction referred to Senior Judge Wesley E. Brown [5-1] (filed under separate cover) (vlw) [Entry date 12/20/99]
12/17/99	16	MEMORANDUM by plaintiff Holmes Group Inc in support of its motion for preliminary injunction referred to Senior Judge Wesley E. Brown [5-1] (vlw) [Entry date 12/20/99]
12/20/99	17	MINUTE ORDER ENTERED by Clerk: Case reassigned from Judge J. Thomas Marten to Senior Judge Wesley E. Brown (cc: all counsel) (vlw) [Entry date 12/21/99]
12/22/99	18	NOTICE OF HEARING before Senior Judge Wesley E. Brown motions hearing set for 2:30 1/3/00 (cc: all counsel) (ef) [Entry date 12/22/99]
12/22/99	19	AFFIDAVIT of Service of Process by Gerald McDow (ef) [Entry date 12/23/99]
12/22/99	20	MOTION to stay proceedings by defendant Vornado Air referred to Judge Brown (jh) [Entry date 12/23/99] [Edit date 12/28/99]

12/22/99	21	MEMORANDUM by defendant in support of motion to stay proceedings by defendant Vornado Air referred to Judge Brown [20-1] (ef) [Entry date 12/27/99] [Edit date 12/28/99]
12/27/99	22	MOTION for attorney Peter W Gowdey to appear pro hac vice by defendant Vornado Air referred to Magistrate Judge Donald W. Bostwick (jh) [Entry date 12/28/99]
12/27/99	23	MOTION for attorney Lynn E Eccleston to appear pro hac vice by defendant Vornado Air referred to Magistrate Judge Donald W. Bostwick w/affidavit attached (cc: Attorney Registration) (jh) [Entry date 12/28/99]
12/27/99	24	MOTION for attorney Lisa A Dunner to appear pro hac vice by defendant Vornado Air referred to Magistrate Judge Donald W. Bostwick w/affidavit attached (cc: Attorney Registration) (jh) [Entry date 12/28/99]
12/27/99	25	MOTION for attorney Jeffrey D. Karceski to appear pro hac vice by defendant Vornado Air referred to Magistrate Judge Donald W. Bostwick w/affidavit attached (cc: Attorney Registration) (jh) [Entry date 12/28/99]
12/27/99	—	PRO HAC VICE FEE PAID re: motions for attorney Jeffrey D. Karceski [25-1], Lisa A Dunner [24-1], Lynn E Eccleston [23-1], and

		Peter W Gowdey [22-1] to appear pro hac vice by defendant Vornado Air referred to Magistrate Judge Donald W. Bostwick on 12/27/99 in the amount of $40.00 (Receipt # 020339) (jh) [Entry date 12/28/99]
12/27/99	26	MOTION for attorney James W. Dabney to appear pro hac vice by plaintiff referred to Magistrate Judge Donald W. Bostwick (ef) [Entry date 12/28/99]
12/28/99	—	PRO HAC VICE FEE PAID re: motion for attorney James W. Dabney to appear pro hac vice by plaintiff referred to Magistrate Judge Donald W. Bostwick [26-1] by attorney James W. Dabney on 12/27/99 in the amount of $ 10.00 (Receipt # 020347) (ef) [Entry date 12/28/99]
12/29/99	27	NOTICE OF SERVICE of motion for preliminary injunction and memorandum brief, motion for expedited discovery, declaration of Paul J. Powers, Jr., Declaration of Francis E. Marino, and Declaration of James W. Dabney upon Michael Coup on 12/18/99 by personal process service on behalf of pltf Holmes Group Inc (vlw) [Entry date 12/29/99]
12/30/99	28	ANSWER to complaint [1-1] and COUNTER-CLAIM by defendant Vornado Air against plaintiff Holmes Group Inc; cntdft Holmes Products Inc (jh) [Entry date 01/03/00]

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12/30/99	29	MOTION to intervene referred to Senior Judge Wesley E. Brown by intervenor US Int'l Trade Comm (ef) [Entry date 01/03/00]
12/30/99	30	ENTRY OF APPEARANCE for intervenor US Int'l Trade Comm by attorney Christina L. Medeiros (ef) [Entry date 01/03/00]
12/30/99	31	RESPONSE by intervenor to motion for preliminary injunction by plaintiff Holmes Group Inc referred to Senior Judge Wesley E. Brown [5-1] (ef) [Entry date 01/03/00]
1/3/00	32	REPLY MEMORANDUM by pltf Holmes Group Inc in support of its motion for preliminary injunction [5-1] and in opposition to deft's motion to stay proceedings [20-1] referred to Judge Brown (vlw) [Entry date 01/04/00]
1/3/00	33	MINUTE SHEET of hearing before Senior Judge Wesley E. Brown granting motion to intervene by US Int'l Trade Comm [29-1]; granting in part and denying in part pltf's motion for preliminary injunction [5-1]; finding moot pltf's motion to expedite discovery [4-1]; denying deft's motion to stay proceedings [20-1]; Court Reporter: Nancy Schaefer (vlw) [Entry date 01/04/00] [Edit date 02/18/00]
1/3/00	34	OPPOSITION by deft Vornado Air to pltf's motion for preliminary injunction referred

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		to Senior Judge Wesley E. Brown [5-1] (vlw) [Entry date 01/04/00]
1/4/00	35	MINUTE SHEET of hearing before Senior Judge Wesley E. Brown regarding pending motions [29-1] [20-1] [5-1] [4-1]; proposed orders submitted; Court Reporter: Gary Rowles (vlw) [Entry date 01/05/00]
1/4/00	36	ORDER ENTERED by Senior Judge Wesley E. Brown granting in part and denying in part pltf's motion for preliminary injunction [5-1]; pltf Holmes Group Inc to post surety bond within 10 days in the amount of $100,000.00 with the Clerk of this Court (cc: all counsel) (vlw) [Entry date 01/05/00]
1/4/00	37	ORDER ENTERED by Senior Judge Wesley E. Brown denying as moot pltf's motion to expedite discovery [4-1] (cc: all counsel) (vlw) [Entry date 01/05/00]
1/4/00	38	ORDER ENTERED by Senior Judge Wesley E. Brown denying deft's motion to stay proceedings [20-1] (cc: all counsel) (vlw) [Entry date 01/05/00]
1/4/00	39	ORDER ENTERED by Senior Judge Wesley E. Brown granting US Int'l Trade Comm's motion to intervene [29-1] (cc: all counsel) (vlw) [Entry date 01/05/00]

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1/5/00	40	MOTION for attorneys Andrea C. Casson and Mary Jane Alves to appear pro hac vice by intervenor US Int'l Trade Comm referred to Magistrate Judge Donald W. Bostwick (cc: Attorney Registration) (vlw) [Entry date 01/06/00] [Edit date 01/06/00]
1/5/00	41	PARTIAL TRANSCRIPT of hearing held 1/3/00 before Senior Judge Wesley E. Brown; volume(s) 1, pages 1-16; Court Reporter: Bannon & Assocs. (vlw) [Entry date 01/06/00] [Edit date 02/18/00]
1/7/00	42	MOTION for summary judgment on the 1st cause of action by pltf Holmes Group Inc referred to Senior Judge Wesley E. Brown (vlw) [Entry date 01/10/00]
1/7/00	43	MEMORANDUM by pltf Holmes Group Inc in support of its motion for summary judgment on the 1st cause of action referred to Senior Judge Wesley E. Brown [42-1] (vlw) [Entry date 01/10/00]
1/10/00	44	ORDER ENTERED: by Magistrate Judge Donald W. Bostwick granting motion for attorneys Andrea C. Casson and Mary Jane Alves to appear pro hac vice by intervenor US Int'l Trade Comm [40-1] (cc: all counsel) (jh) [Entry date 01/11/00]
1/10/00	45	ORDER ENTERED: by Magistrate Judge Donald W. Bostwick granting motion for

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		attorney James W. Dabney to appear pro hac vice by plaintiff [26-1] (cc: all counsel) (jh) [Entry date 01/11/00]
1/10/00	46	MINUTE ORDER ENTERED by Clerk granting motion for attorney Jeffrey D. Karceski to appear pro hac vice by defendant Vornado Air [25-1] (cc: all counsel) (jh) [Entry date 01/11/00]
1/10/00	47	MINUTE ORDER ENTERED by Clerk granting motion for attorney Peter W Gowdey to appear pro hac vice by defendant Vornado Air [22-1] (cc: all counsel) (jh) [Entry date 01/11/00]
1/10/00	48	MINUTE ORDER ENTERED by Clerk granting motion for attorney Lynn E Eccleston to appear pro hac vice by defendant Vornado Air [23-1] (cc: all counsel) (jh) [Entry date 01/11/00]
1/10/00	49	MINUTE ORDER ENTERED by Clerk granting motion for attorney Lisa A Dunner to appear pro hac vice by defendant Vornado Air [24-1] (cc: all counsel) (jh) [Entry date 01/11/00]
1/10/00	50	NOTICE OF INTERLOCUTORY APPEAL to FEDERAL CIRCUIT by Vornado Air from the court's order of 1/4/00 regarding the preliminary injunction [36-1] (cc: all

counsel, Federal Circuit) (vlw) [Entry date 01/11/00]

1/10/00 — APPEAL FEE STATUS: filing fee not paid as to interlocutory appeal of deft Vornado Air [50-1] (vlw) [Entry date 01/11/00]

1/11/00 51 ORDER ENTERED by Magistrate Judge Donald W. Bostwick: scheduling conference set for 10:00 2/8/00 (cc: all counsel) (vlw) [Entry date 01/12/00]

1/11/00 — APPEAL FEE STATUS: filing fee paid as to appeal of deft Vornado [50-1] (Receipt # 20424) (vlw) [Entry date 01/12/00]

1/11/00 52 LETTER to FEDERAL CIRCUIT stating filing fee paid by appellant Vornado Air [50-1] (vlw) [Entry date 01/12/00] [Edit date 02/01/00]

1/14/00 53 MOTION to stay pltf's motion for summary judgment pending outcome of deft's preliminary injunction appeal to 10CCA by defendant Vornado Air referred to Senior Judge Wesley E. Brown (vlw) [Entry date 01/18/00]

1/14/00 54 MEMORANDUM by deft Vornado Air in support of its motion to stay pltf's motion for summary judgment pending outcome of deft's preliminary injunction appeal to

10CCA referred to Senior Judge Wesley E. Brown [53-1] (vlw) [Entry date 01/18/00]

1/14/00 55 PRELIMINARY INJUNCTION BOND in amount of $100,000.00 filed by plaintiff Holmes Group Inc pursuant to court's order of 1/14/00 [36-1]; surety American Casualty Company of Reading, PA (vlw) [Entry date 01/18/00]

1/14/00 56 TRANSCRIPT of proceedings held 1/3/00 before Senior Judge Wesley E. Brown as to appeal of Vornado Air [50-1]; volume(s) 1 of 1; pages 1-68; Court Reporter: Bannon & Associates (Nancy Schaefer) (vlw) [Entry date 01/18/00]

1/18/00 57 APPEAL TRANSCRIPT PURCHASE ORDER by Court Reporter Nancy L. Schaefer as to appeal (FEDERAL CIRCUIT) of deft Vornado [50-1] ordering transcript(s) of the 1/3/00 proceeding; transcripts due: 1/12/00 (vlw) [Entry date 01/19/00]

1/19/00 58 ANSWER by counter-deft Holmes Group Inc TO COUNTERCLAIM by Vornado Air [28-2] (vlw) [Entry date 01/20/00]

1/24/00 59 MEMORANDUM in opposition by pltf Holmes Group Inc to deft's motion to stay pltf's motion for summary judgment pending outcome of deft's preliminary injunction

appeal to 10CCA [53-1] (cc: Judge Brown) (vlw) [Entry date 01/25/00] [Edit date 01/25/00]

1/27/00 60 MEMORANDUM in opposition by defendant Vornado Air to motion for summary judgment on the 1st cause of action by pltf Holmes Group Inc referred to Senior Judge Wesley E. Brown [42-1] (ef) [Entry date 01/31/00]

2/7/00 61 REPLY MEMORANDUM by pltf Holmes Group Inc in support of its motion for summary judgment on the 1st cause of action referred to Senior Judge Wesley E. Brown [42-1] (vlw) [Entry date 02/08/00]

2/9/00 62 SCHEDULING ORDER ENTERED by Magistrate Judge Donald W. Bostwick: Discovery deadline 8/15/00; dispositive motion deadline 9/26/00; Scheduling Conference held 2/8/00; final pretrial conference set for 10:00 9/12/00; status conference set for 1:30 4/13/00 (central time); case should be ready for trial by 10/00 (cc: all counsel) (vlw) [Entry date 02/10/00]

2/10/00 63 CERTIFICATE OF SERVICE of Rule 26 initial disclosures by plaintiff Holmes Group Inc (vlw) [Entry date 02/11/00]

2/11/00 64 APPEAL DOCKETED in FEDERAL CIRCUIT on 2/2/00 [50-1] and assigned

Appeal No. 00-1177 as to appeal of Vornado Air (vlw) [Entry date 02/14/00]

2/16/00 65 CERTIFICATE OF SERVICE of 1st request for production and 1st set of interrogs by plaintiff Holmes Group Inc (vlw) [Entry date 02/17/00]

2/24/00 66 NOTICE by deft of taking deposition of representatives of The Holmes Group Inc and Holmes Products Corp on 3/10/00 at 9:00 a.m. (vlw) [Entry date 02/25/00]

3/1/00 67 MOTION AND AFFIDAVIT for attorney Samuel P. Burkholder to appear pro hac vice by deft Vornado Air referred to Magistrate Judge Donald W. Bostwick (cc: Attorney Registration) (vlw) [Entry date 03/02/00] [Edit date 03/02/00]

3/1/00 — PRO HAC VICE FEE PAID for attorney Samuel P. Burkholder to appear pro hac vice by deft Vornado Air referred to Magistrate Judge Donald W. Bostwick [67-1] on 3/1/00 in the amount of $10.00 (Receipt # 20699) (vlw) [Entry date 03/02/00]

3/3/00 68 ORDER ENTERED by Magistrate Judge Donald W. Bostwick granting deft Vornado's motion for attorney Samuel P. Burkholder to appear pro hac vice [67-1] (cc: all counsel, Attorney Registration) (vlw) [Entry date 03/06/00]

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3/3/00	69	CERTIFICATE OF SERVICE of second declaration of James W. Dabney by plaintiff Holmes Group Inc (vlw) [Entry date 03/07/00]
3/3/00	70	SECOND DECLARATION of James W. Dabney (cc: Judge Brown) (vlw) [Entry date 03/07/00]
3/7/00	71	SECOND DECLARATION of James W. Dabney (with original signature) [70-1] (jh) [Entry date 03/08/00]
3/8/00	72	MEMORANDUM AND ORDER by Senior Judge Wesley E. Brown denying deft Vornado's motion to stay pltf's motion for summary judgment pending outcome of deft's preliminary injunction appeal to 10CCA [53-1]; and granting pltf Holmes' motion for summary judgment on the 1st cause of action [42-1]; 12 pages (cc: all counsel) (vlw) [Entry date 03/09/00]
3/9/00	73	CERTIFICATE OF SERVICE by defendant Vornado Air of first set of interrogatories and first request for production of documents and things (jh) [Entry date 03/10/00]
3/15/00	74	MOTION for entry of judgment pursuant to Rule 54(b) by defendant Vornado Air referred to Senior Judge Wesley E. Brown (ef) [Entry date 03/16/00]

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3/16/00	75	MOTION for injunction against relitigation by plaintiff Holmes Group Inc referred to Senior Judge Wesley E. Brown (bs) [Entry date 03/17/00]
3/20/00	76	NOTICE OF SERVICE of response to pltf's 1st set of interrogs and response to pltf's 1st request for production by intervenor US Intl Trade Comm (vlw) [Entry date 03/21/00]
3/27/00	77	FINAL JUDGMENT ENTERED BY JUDGE BROWN: IT IS ORDERED, pursuant to the Memorandum and Order filed 3/8/00 and entered on the docket 3/9/00, that Final Judgment is entered in favor of Holmes and against Vornado on Holmes' first cause of action seeking declaratory judgment holding that Holmes' sale of its fan and heater products does not infringe any valid or enforceable trade dress claimed by deft Vornado under 15 USC 1051 et seq [72-1] (cc: all counsel) (vlw) [Entry date 03/27/00] [Edit date 03/29/00]
3/27/00	78	NOTICE OF APPEAL to "FEDERAL CIRCUIT" by attorney Kent Meyerhoff on behalf of defendant Vornado Air from judgment of 3/27/00 [77-1] (cc: all counsel, 10CCA) (vlw) [Entry date 03/28/00] [Edit date 03/28/00]

3/27/00	—	APPEAL FEE STATUS: filing fee paid as to appeal of deft Vornado Air [78-1] (Receipt # 20836) (vlw) [Entry date 03/28/00]
3/27/00	79	ENTRY OF APPEARANCE for defendant Vornado Air by attorney Kent A. Meyerhoff (vlw) [Entry date 03/28/00]
3/27/00	80	VERIFICATION by Vornado Air that their responses to pltf's 1st set of interrogs are true and correct (vlw) [Entry date 03/28/00]
3/28/00	81	RESPONSE by defendant Vornado Air in opposition to motion for injunction against relitigation pursuant to the All Writs Act by plaintiff Holmes Group Inc referred to Senior Judge Wesley E. Brown [75-1] (vlw) [Entry date 03/29/00]
3/29/00	82	RESPONSE by intervenor US Intl Trade Comm to motion for injunction against relitigation by plaintiff Holmes Group Inc referred to Senior Judge Wesley E. Brown [75-1] (jh) [Entry date 03/30/00]
3/30/00	83	MOTION for attorney Donnette R. Rimmer to appear pro hac vice by intervenor referred to Magistrate Judge Donald W. Bostwick (cc: Attorney Admissions) (ef) [Entry date 03/31/00]
3/31/00	84	REPLY BRIEF by plaintiff Holmes Group Inc in support of its motion for injunction

		against relitigation referred to Senior Judge Wesley E. Brown [75-1] (vlw) [Entry date 04/03/00]
4/10/00	85	APPEAL MANDATE from 10CCA dismissing proceeding [50-1] (Appeal No. 00-1177) (vlw) [Entry date 04/11/00]
4/12/00	86	ORDER ENTERED by Magistrate Judge Donald W. Bostwick granting motion for attorney Donnette R. Rimmer to appear pro hac vice by intervenor (cc: Attorney Admissions) [83-1] (cc: all counsel) (vlw) [Entry date 04/13/00]
4/14/00	87	APPEAL DOCKETED in FEDERAL CIRCUIT on 4/10/00 [78-1] and assigned Appeal No. 00-1286 (vlw) [Entry date 04/17/00]
5/16/00	88	CERTIFICATE OF SERVICE of Vornado's identification of in-house experts by defendant Vornado Air (vlw) [Entry date 05/17/00] [Edit date 05/17/00]
5/16/00	89	IDENTIFICATION OF IN-HOUSE EXPERTS submitted by defendant Vornado Air; defendant Vornado Air will not be calling any in-house witnesses as experts at trial (vlw) [Entry date 05/17/00]
6/5/00	90	MEMORANDUM AND ORDER: by Senior Judge Wesley E. Brown denying motion for

injunction against relitigation by plaintiff Holmes Group Inc [75-1] 2 pages (cc: all counsel) (ef) [Entry date 06/06/00]

6/6/00 91 JOINT MOTION for entry of order pursuant to the parties' settlement agreement by Holmes Group Inc, Vornado Air, US Intl Trade Comm referred to Senior Judge Wesley E. Brown (ef) [Entry date 06/07/00]

6/12/00 92 ORDER ENTERED by Senior Judge Wesley E. Brown on joint motion of parties to dismiss claims: Plaintiff's 2nd, 3rd, 4th, 5th, 6th and 7th causes of action are dismissed without prejudice to reopening; all proceedings relating to counterclaim of defendant Vornado are stayed pending further order of this court; if final judgment on plaintiff's 1st cause of action is affirmed on appeal, Preliminary Injunction Order issued 1/4/00 shall become a Permanent Injunction Order, preliminary injunction bond posted by Holmes shall be released and discharged, dismissal of claims 2-7 shall become with prejudice, and counterclaim of Vornado shall be dismissed with prejudice, if Final Judgment on 1st cause of action is reversed on appeal, either party may seek reinstatement of all claims conditionally dismissed [91-1] (cc: all counsel) (vlw) [Entry date 06/13/00]

6/11/01 93 APPEAL MANDATE from FEDERAL CIRCUIT vacating the District Court's judgment and remanding the matter back to District Court for further proceedings; case reopened [78-1] (Appeal No. 00-1286) (cc: Judge Brown) (vlw) [Entry date 06/12/01] [Edit date 06/29/01]

6/15/01 94 NOTICE OF HEARING before Senior Judge Wesley E. Brown: status/motions hearing set for 1:30 8/27/01 (cc: all counsel) (vlw) [Entry date 06/18/01]

6/29/01 95 CERTIFIED COPY OF APPEAL MANDATE from "Federal Circuit"; judgment of District Court is vacated; case remanded to District Court for further proceedings (Appeal No. 00-1286) (vlw) [Entry date 07/02/01]

8/27/01 96 MINUTE SHEET of hearing before Senior Judge Wesley E. Brown: Status Conference held 8/27/01; case stayed pending writ of certiorari; parties to advise court of status by 12/1/01 Court Reporter: Jim Harper (vlw) [Entry date 08/28/01]

[END OF DOCKET: 6:99cv1499]

APPENDIX C — OPINION OF THE SUPREME COURT OF THE UNITED STATES GRANTING CERTIORARI DATED NOVEMBER 8, 2001

SUPREME COURT OF THE UNITED STATES

01-408

THE HOLMES GROUP, INC.

v.

VORNADO AIR CIRCULATION SYSTEMS, INC.

* * *

November 8, 2001, Decided

JUDGES: Rehnquist, Stevens, O'Connor, Scalia, Kennedy, Souter, Thomas, Ginsburg, Breyer.

OPINION: The petition for a writ of certiorari is granted limited to Questions 1 and 3 presented by the petition.

APPENDIX D — PER CURIAM ORDER OF THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT DATED AND FILED JUNE 5, 2001

UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

00-1286

THE HOLMES GROUP, INC.,

Plaintiff-Appellee,

v.

VORNADO AIR CIRCULATION SYSTEMS, INC.,

Defendant-Appellant.

Before MAYER, *Chief Judge*, NEWMAN and SCHALL, *Circuit Judges*.

PER CURIAM.

ORDER

Upon consideration of the issues presented in this case,

IT IS ORDERED THAT:

(1) The March 27, 2000 judgment of the United States District Court for the District of Kansas is vacated.

(2) The case is remanded to the United States District Court for the District of Kansas for further proceedings in light of the decision of the Supreme Court of the United States in *Traffix Devices, Inc. v. Marketing Displays, Inc.*, 121 S. Ct. 1255 (2001). The district court is directed to consider whether the "change in the law" exception to collateral estoppel applies in view of the *Traffix* decision, and, if appropriate, then to consider the case on the merits.

(3) Each side shall bear its own costs.

FOR THE COURT

JUN – 5 2001
Date

s/ Jan Horbaly
Jan Horbaly
Clerk

APPENDIX E — TRANSCRIPT OF PROCEEDINGS OF THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF KANSAS DATED JANUARY 3, 2000

IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF KANSAS

Case No. 99-1499-WEB

HOLMES GROUP, INC.,

Plaintiff,

VS.

VORNADO AIR CIRCULATION,

Defendant.

PROCEEDINGS

The following proceedings were had before the Honorable Wesley E. Brown, United States District Court Judge, United States Courthouse, 401 North Market, Wichita, Sedgwick County, Kansas, on the 3rd day of January, 2000, starting at 2:31 p.m.

* * *

[3] PROCEEDINGS

MR. LAHEY: All rise. Court is now in session, please be seated.

THE COURT: Call your case, Ms. Clerk.

THE COURT CLERK: In the United States District Court for the District of Kansas, Civil Case 99-1499, Holmes Group, Inc. versus Vornado Air Circulation.

THE COURT: Have you announced your appearances to the court reporter?

MR. GOERING: Yes, Your Honor.

MR. GOWDEY: We have, Your Honor, Peter Gowdey for Vornado.

THE COURT: All right.

MR. GOERING: Yes, Your Honor, we have, Jim Goering for the Holmes Group, my partner Timothy Mustaine, and you may remember from the previous trial —

THE COURT: Oh, I remember Mr. Dabney.

MR. GOERING: — Mr. Dabney and Carol —

THE COURT: I will remember you, Mr. Gowdey, too when we get through with this.

[4] MR. GOWDEY: I don't think you can, Your Honor, because I have not been here before.

THE COURT: I said I will remember you after we have it.

MR. GOWDEY: Oh, okay.

THE COURT: No, I remember we — I have looked through your papers that you filed in this case. You remember the — my sense of humor sometimes gets the best of me, but you remember the story of the judge who had a great long group of documents and he went in chambers and rolled 'em up and said I've just looked through your papers. So you realize that there's been a massive group of documents filed. I have tried to go over them sufficiently to see what we have.

Let me summarize briefly what I think this case before me today is, and then I'll be glad to hear from you all as long as you want to visit with me about it. The previous litigation in this suit court involving defendant Vornado and another company Duracraft, the Tenth Circuit determined that Vornado could not protect as trade dress its air tensity spiral fan grill because the grill was a significant inventive [5] element of Vornado's patented fans. That was the decision.

In this action, plaintiff Holmes alleges that Vornado, among other things, has filed a complaint before the International Trade Commission, the ITC, claiming that Vornado's grill is protected trade dress and is claiming that Holmes is making products that infringe on Vornado's trade dress. Holmes now seeks relief against Vornado under federal trademark law and various state laws.

The Court has set this matter down for a motions hearing and a status conference. As of Friday, there were four motions filed, a motion to intervene by the United States International Trade Commission, Holmes' motion for a preliminary injunction, Holmes' motion for expedited discovery, and Vornado's motion to stay this proceeding.

Appendix E

The first issue that I'll take up this morning will be the motion to intervene by the ITC. And if you have anything further to say, any of your parties, there has been objection to intervention, I'll be glad to hear from the government and any objections to the [6] intervention at this point.

MR. DABNEY: Your Honor, James Dabney.

THE COURT: Yes. I can see you all right. They haven't got you quite blocked off by that. I imagine that's your — is that your exhibit?

MR. DABNEY: This is — the exhibit to my left is a plaintiff's exhibit, Your Honor.

THE COURT: It's familiar to me.

MR. DABNEY: Yes. We received the government's motion to intervene only late in the afternoon on December 30, just before our computers went down for the Y2K on the eve of the New Year's Eve recess. Holmes does not believe that there is any basis for ITC intervention in this case, but we would respectfully request an opportunity to brief that issue for Your Honor's consideration prior to a ruling on that.

THE COURT: Well, I'm going to have to rule on it before I rule on your other issue. Now, do you want me to wait for that? My inclination, of course, always is to let anybody come in and argue that wants to argue with me. [7] What the effect would be I don't know. But you realize that's my inclination and I don't — even if I let 'em intervene, the question of whether or not anything I do would affect them one way or another is another question.

Appendix E

MR. DABNEY: Your Honor, Holmes does not wish for this proceeding to be delayed for any reason, and in view of Your Honor's comments, I guess I'd like to confer with my client briefly before —

THE COURT: Go ahead.

MR. DABNEY: — we would draw any objection to the ITC's intervention.

THE COURT: Mr. Gowdey, would you like to —

MR. GOWDEY: Your Honor, I might say that I believe the justice department brief or the brief filed by the ITC points out that they have successfully intervened before. As we pointed out in our motion to stay, in the normal instance in an ITC case where you have a complainant and a respondent, there is a statute that directly permits the respondent to obtain a mandatory stay from a federal court judge if they're sued in federal court as well as the [8] ITC. And I think the intervention by the ITC relates directly to our motion to stay and points out why that motion is important for this court to consider and why it is important for this court to grant that motion to stay, because the ITC action can go on by itself. And I think the ITC, as they intervene, can explain that to Your Honor perhaps better than I can. Nonetheless, in the interest of judicial economy, the ITC has before it —

THE COURT: Has what?

MR. GOWDEY: Has before it now by guise of the complaint the issues that Holmes is attempting to get before

you and it would appear to us and Vornado that the last place Holmes wishes to be is the ITC. So we would support the ITC's intervention in this case for all of its instructive purposes that it can have.

THE COURT: Yes, Mr. Dabney.

MR. DABNEY: Your Honor, I have conferred with my client on this motion that I had not had a previous opportunity to confer with my client about. I would note for the record that we do not see any basis for the ITC's intervention in this case. However, we [9] waive any objection that the plaintiff may have to the intervention.

THE COURT: Thank you. With that in mind, the Court will permit the ITC to intervene and will accept their brief setting forth their position, and the motion to intervene is granted pursuant to Rules 24(a) and 24(b).

Now, with that out of the way, let's go to this interesting problem which is before the Court. Let's talk a minute about Holmes' motion for a preliminary injunction, and, Holmes, listen to me very carefully that I set forth what you're talking about. In this motion for preliminary injunction, Holmes contends that Vornado is attempting to collaterally attack this court's judgment in Vornado one, we'll call it now. It further contends Vornado is engaging in false advertising, unfair competition, and deceptive acts and practices. Holmes contends that it will suffer irreparable harm if relief is not granted and it seeks a preliminary injunction restraining Vornado and its agents from doing several things, including, and this is a summary, claiming in advertising that its grill

constitutes protected trade dress, issuing [10] any public statement accusing Holmes of infringing any trade dress claim by Vornado and its grill, commencing or maintaining any action or proceeding in which the grill is claimed to be protected trade dress, or attempting to relitigate in any form, including the ITC, any issue decided by the Tenth Circuit in Vornado one. Holmes also asks the Court to order Vornado to withdraw its ITC complaint insofar as it asserts trade dress infringement and to the issues of corrective advertising.

Have I covered what you're claiming, Mr. Dabney, pretty much?

MR. DABNEY: You have, Your Honor.

THE COURT: Now, I have read your proceeding, Mr. Dabney. With that background, and I have the verified complaint for the injunction, temporary injunction or preliminary injunction, can we start out by agreeing that this court has jurisdiction over the parties and the subject matter of this case? I want to hear — I know you think so, you filed the complaint.

MR. GOWDEY: I think to the extent the complaint was filed, yes, you do.

[11] THE COURT: And so we have jurisdiction now because the, in effect, the ITC has entered its appearance, is that correct, ITC, you're here someplace?

MS. METZGER: Yes, Your Honor, Emily Metzger from the U.S. attorney's office.

THE COURT: All right, Emily —

MS. METZGER: Proud to be here, Your Honor.

THE COURT: — Ms. Metzger, excuse me. I've known Ms. Metzger since she was a little girl practically so if I say something — I'm not very formal in these motion hearings, but it isn't that I don't take you all very seriously, I do.

MR. GOWDEY: All right, Your Honor, I might just add in terms of this court's jurisdiction, it extends beyond the areas that you read in your summary because Vornado has now filed an answer and in that answer has set forth a counterclaim, so in addition to the trademark statutes, this court has jurisdiction over the patent claims now pending in this case as well so I would amend your summary to that extent.

THE COURT: All right. Do you agree [12] with that amendment, Mr. Dabney?

MR. DABNEY: I agree that the Court has jurisdiction to hear and decide the counterclaim Vornado has put forward; however, I would disagree that the filing of that counterclaim necessarily affects the basis —

THE COURT: Tell me again.

MR. DABNEY: I would disagree that a counterclaim filed by a defendant in a case affects the basis of the Court's jurisdiction which is determined by the face of the plaintiff's complaint under well-established, well-pleaded complaint

rule of practice. But laying aside this disagreement I have with Mr. Gowdey over why the Court has jurisdiction the counterclaim, we agree the Court has jurisdiction over the counterclaim.

THE COURT: I have jurisdiction to decide it?

MR. DABNEY: Yes.

MR. GOWDEY: But it is not as small an issue as Mr. Dabney would have this court believe. There is much case precedent to state that in this situation the complaint here, in terms of its jurisdictional basis, should be [13] considered as the complaint filed by the declaratory judgment defendant/counterplaintiff and that way jurisdiction with respect to both the patent and trademark issues is significant because it takes appellate jurisdiction away from the Tenth Circuit in this case and places appellate jurisdiction for this matter to the court of appeals for the federal circuit in Washington.

THE COURT: Let me ask you, Ms. Metzger.

MS. METZGER: Yes, Your Honor.

THE COURT: You're here but in the main, will Mr. Gowdey be talking on behalf of the ITC?

MS. METZGER: Our positions are probably in line to some extent, Your Honor. With regard to remarks of the Court's jurisdiction, I believe that, yes, the United States' position is this court does have jurisdiction over this complaint and these parties. Our position, Your Honor, is

that the ITC, though, however, has jurisdiction over the complaint pending before it. It has not yet made a determination whether to initiate on that [14] complaint, whether to have an investigation, and, therefore, that decision will not be made until January 18th. So the position of the United States, Your Honor, is it would be inappropriate for this court to interfere in any way with the jurisdiction of the commission. It is an additional jurisdiction under the law, I believe, to hear this complaint.

So that's our position today. We will not necessarily align with either party on sort of the merits of this issue preclusion or collateral estoppel issue that has been raised in this. The ITC believes that is an issue that should be addressed by it in its forum by the commission when it airs the complaint or makes a determination whether to initiate an investigation. That is an issue it will — can and will consider. We take no formal position on the merits of that in this forum, Your Honor.

THE COURT: Is it fair to say that you are here to protect the jurisdictional position of ITC in determining the issue of what products can come into the United States?

MS. METZGER: I think that's a very fair statement, Your Honor, yes. The statutory [15] jurisdiction of the ITC to investigate complaints that have been brought before it or to self-initiate investigations where appropriate.

THE COURT: You both agree with my conclusion about the ITC's position in this, Mr. Gowdey?

MR. GOWDEY: I agree with everything Ms. Metzger said, yes, Your Honor.

THE COURT: That isn't what I asked you, it's what I said —

MR. GOWDEY: I do agree —

THE COURT: — my conclusion?

MR. GOWDEY: — the jurisdiction of the ITC is with respect to imported goods coming into the U.S.

THE COURT: All right. Mr. Dabney, does that suit you too?

MR. DABNEY: Your Honor, I'd say Holmes takes no position with regard to the ITC's stated jurisdiction or not.

THE COURT: Then you have no claim one way or another with respect to it?

MR. DABNEY: We do not. As far as Holmes' position is concerned, the motion before [16] the Court has nothing to do with the ITC, we don't know why they're here.

THE COURT: Well, when I let them in, I have to consider it, do you understand that, in light of their contention for the jurisdiction that they have, and I will rule on that as to what I do?

MR. DABNEY: I certainly agree with that, Your Honor.

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THE COURT: All right. Just keep me straight. You remember me telling you that many times? You tried very hard, Mr. Dabney, and were successful after I made a mistake.

Let's see now, all right. Now, for the preliminary assessment, I call it, the Court has jurisdiction over the parties and the subject matter. In claiming that its grill is protected trade dress, it seems clear that Vornado is asserting something directly contrary to the Tenth Circuit's holding, which is binding in this circuit. But Vornado is making a claim in another jurisdiction and is bringing that claim before another tribunal with jurisdiction to hear and decide the issue presented there. And that issue is not necessarily what this court [17] must decide.

As you know, a preliminary injunction requires a showing of four elements by the party seeking relief. This is standard, I only repeat it here because — to keep ourselves focused on what we must do. In seeking relief, the party seeking it must — there must be a substantial likelihood of prevailing on the merits, there's irreparable harm in the absence of the injunction, proof that the threatened harm outweighs any damage the injunction might cause to the party opposing it, and that the injunction, if issued, will not be adverse to public interest. And that's all standard in this circuit and everyplace else as far as I know, but most recently with the Tenth Circuit in a case of Kansas Health Care Associates versus the SRS, 31 Fed. 3d 1536. It's a 1994 case.

Now, how we do this, this is a motion hearing and a status conference, and I guess I better turn it over to you, Mr. Dabney, to give me the benefit of your views —

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MR. DABNEY: Thank you, Your Honor.

THE COURT: — which have been [18] thoroughly expounded in your memorandums to the Court. I'd be glad to hear from you.

MR. DABNEY: Thank you, Your Honor. James Dabney, Pennie & Edmonds, L.L.P. of New York for the plaintiff, the Holmes Group, Inc.

Your Honor, in 13 days, one of the two largest housewares industry trade shows is going to open, and the question before Your Honor, the first question before Your Honor on our preliminary injunction motion is whether at that show and pending determination of this action the defendant in this case is going to be permitted to tell Holmes' customers at that show that Holmes' products, exemplified by these Holmes — the Holmes blizzard fan and the Holmes power heater, are identified in the photographs attached to the declaration of Paul Powers, questions whether Holmes' — the defendant is going to be permitted to tell Holmes' customers that they better watch out and not buy these products because they somehow embody what the defendant claims is a trade dress owned by the defendant.

We've put in affidavits, which are uncontradicted on the record before Your Honor, [19] that the statements to that effect which the defendant has made to date, which have been specifically and deliberately targeted at Holmes and its customer relationships, have been highly injurious to Holmes' reputation, have caused confusion on the part of major purchasers of Holmes, who need not too much reason not to

deal with Holmes instead of another competitor who isn't the subject of these kinds of allegations.

THE COURT: Is Duracraft in this business too?

MR. DABNEY: Duracraft is in the exact same business, Your Honor, and —

THE COURT: Are they at the trade show?

MR. DABNEY: They are at the trade show. They are at the trade show, and if Mr. Gowdey's position were correct, they could go now and sue Duracraft and seek an injunction and exclusion order against Duracraft on the same theory that supposedly Your Honor's judgment in this case doesn't mean anything anymore. I respectfully submit to Your Honor that as to what in my experience are the most important considerations governing the grant or [20] denial of preliminary injunctive relief, namely irreparable harm and the absence of the relief sought from the balance of the hardships between the parties, there's no contest here. There's no question but that the conduct that Holmes is trying to stop in this court is conduct that is intended and calculated to cause injury to Holmes, to scare off Holmes' customers, to discourage Holmes' customers from buying products from Holmes in a circumstance which is classic textbook irreparable harm of the sort that can never be compensated for in money damages after the fact.

If we don't get a preliminary injunction from Your Honor, the 2000 National Housewares Manufacturers Association Trade Show is going to be over and Holmes will forever lose

its right to do business at that show free from disparagement and interference and damage caused by what we contend are literally false and malicious allegations of trade dress infringement made by the defendant. So the —

THE COURT: You have attached those representations as a part of your brief.

MR. DABNEY: We have, Your Honor.

[21] THE COURT: Yes.

MR. DABNEY: And so the decision before Your Honor comes down to what we see as a pure question of law, which is does the final judgment of Your Honor and the Tenth Circuit remain binding on the defendant? If it does, the application has to be granted because in that situation, the charges of trade dress infringement, the allegation that Holmes is an infringer are indisputably and literally false.

We believe we have established the highest possible likelihood of success on the merits of that claim because as a result of nearly three years of litigation before Your Honor, that was litigated up to the Supreme Court of the United States and specifically decided. Vornado has not even made a pretense that the claim it's trying to assert today is different in the slightest from the claim which was before Your Honor in the Vornado one case. I have put up before Your Honor an image of what they contend is the trade dress today, the Vornado model 5506, and as Your Honor can see, it's even apparently the identical stock photograph that was at issue in the Vornado one case.

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[22] So the only thing which the defendant has to say for itself in this case is that the judgment of Your Honor and the Tenth — well, they said two things. The first thing they've said to Your Honor is we don't want Your Honor to decide the question of whether your judgment means anything anymore. The first thing they did in response to Holmes' motion was to come in and file a motion to stay all proceedings in this court to say Holmes should be thrown out on its ear in the street, the Court should do nothing and should not decide anything in this case.

The practical effect of the stay motion, Your Honor, would mean that the preliminary injunction would be heard by nobody. There's no claim made that there's some other tribunal we should have made this motion to. Certainly, the ITC makes no claim that it could have jurisdiction to hear or decide this motion. So the first point was a extremely ungrounded motion for stay of proceedings, which the defendant understandably is receding a little bit from now and has actually now filed a motion on the merits, which was handed to me in the [23] courtroom today for the first time.

So assuming that Your Honor is actually going to take up the merits of the application, which Your Honor has done and we appreciate that very much, the only issue comes down to whether or not this decision of the federal circuit in 1999 somehow renders the judgment of this court a dead letter and relieves the defendant of the binding effect of the judgment. We respectfully submit that it clearly and obviously does not.

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At the time the Vornado one decision was decided, the defendant in this case sought and Your Honor granted nationwide injunctive relief. This was not a case limited to the Tenth Circuit. This was a case in which they sought nationwide injunctive relief and Your Honor ruled that they were entitled to an injunction barring use of this alleged trade dress anywhere in the United States. On the day the Tenth Circuit's decision was decided on July the 5th, 1995, they distinguished in their decision the law of the Ninth Circuit in the Clamp case, which Vornado had argued that the Tenth Circuit should adopt and the Tenth Circuit declined to adopt it. Well, the law at that time in the [24] Ninth Circuit was different than it was in the Tenth Circuit, and if Vornado had filed suit in the Ninth Circuit instead of the Tenth Circuit, the merits of that claim might have been subject to different verbiage and conceivably the outcome might have been different based on the application of that verbiage to the specific facts of this case. We'll never know. But the idea that there's been some new development in the year 1999 because the court of appeals for the federal circuit has said that it disagrees with the ratio decidendi of the Tenth Circuit is simply insupportable. Nothing has changed.

If Your Honor studies the law of functionality or the law of distinctiveness or the law of trade dress as it has been articulated in the courts of appeal through time, the courts of appeal are all over the lot. There is nothing new about this. There has been no change in the law whatsoever. The argument that suddenly in 1999 the court of appeals for the federal circuit has decided that it now agrees sort of with the Ninth Circuit approach, which really isn't a change anyway —

THE COURT: Do ycu think that's new [25] law?

MR. DABNEY: What's new, Your Honor, the only thing that's new has nothing to do with the substantive law. The only thing that's new — the law, the substantive law of the federal circuit on trade dress infringement is exactly the same today as it was four years ago. The only thing that's changed is that for the first 15 years of its existence, the federal circuit took the position that when patent claims, which are its exclusive province, are joined with non-patent claims, such as estate law tort claim —

THE COURT: They have patent claims now before the ITC, don't they?

MR. DABNEY: Vornado has a patent claim pending before the ITC, exactly, Your Honor.

THE COURT: And the trade dress claim, both?

MR. DABNEY: Yes, they do.

THE COURT: Okay, that's fine, and I thought the circuit — procedurally, I thought the — isn't the D.C. circuit the one we are talking about?

[26] MR. DABNEY: It's the federal — court of appeals for the federal circuit.

THE COURT: Yes.

MR. DABNEY: And there is no question but that the federal circuit has exclusive jurisdiction to hear appeals from

ITC decisions. But the court of appeals for the Ninth Circuit has exclusive jurisdiction to hear appeals from the central district of California, and the supreme court of Kansas has exclusive jurisdiction to hear appeals from the trial courts in the State of Kansas, that's not new. The enforceability of a judgment rendered by a federal court has never depended on the forum where the losing litigant went to to try to evade it. The judgment is enforceable wherever the litigant goes to try to evade it, and we have cited case after case after case in our brief to Your Honor where federal courts have issued relitigation injunctions against losing litigants who attempt to do exactly what Vornado has done here.

The courts have not held that a litigant is relegated to asserting res judicata and collateral estoppel defenses in the second court [27] and run the gauntlet in the second court. The cases are cited in our brief, it's been held over and over again that the Court can — doesn't have to, don't want to suggest the Court has to, but the Court unquestionably has jurisdiction and, we respect, should exercise its jurisdiction to decide whether or not there's been some profound intervening change in the law which justifies rendering three years of litigation and the considered judgment of the Tenth Circuit and this court nugatory and of no force and effect so that Vornado can go around and sue Duracraft and Holmes and anyone else for alleged infringement of the alleged unregistered trade dress which was the subject of that prior action.

We are all subject to the Supreme Court of the United States, and the one thing that clearly has not changed is there's been no intervening supreme court decision. The suggestion

that the federal circuit could somehow review and overrule or trump, to use Vornado's word, a final judgment rendered years before by a —

THE COURT: The —

[28] MR. DABNEY: I'm sorry?

THE COURT: The federal circuit has said they didn't agree with the Tenth Circuit.

MR. DABNEY: That's right.

THE COURT: In no uncertain terms.

MR. DABNEY: And the Second Circuit and the Ninth Circuit and the Third Circuit all in their own ways also disagree with each other and the Tenth Circuit. There has never been —

THE COURT: Well, I don't disagree with the Tenth Circuit is my position.

MR. DABNEY: All I'm saying is, Your Honor, is we're not here arguing whether or not, as a matter of stare decisis in a new case, whether or not Tenth Circuit law principles or federal circuit law principles should be applied to a new claim that has never before been litigated. That's not the issue before this court. We're also not talking about whether or not there should be concurrent ITC and federal court adjudications of issues which have never before been litigated. That's not the issue either.

The issue before this court is whether a final judgment, not just of a district court but [29] of an appellate court and of the Supreme Court of the United States, is going to be enforced or not. If Your Honor determines that the judgment rendered in this case remains valid, and I respectfully submit that there hasn't been any presentation that could call into question the continued validity of the judgment insofar as it binds the defendant, the Court has to grant the application that we've asked, at least as to the advertising injuries that we are claiming in this case.

With regard to the relitigation injunction, we've cited the numerous authorities in our papers in which such injunctions have been granted. It would make no difference whether Vornado went into the southern district of New York or the northern district of Texas or the supreme court of the State of New York or the ITC, the fact that they chose the ITC is a shear happenstance and it should not call for the Court to withhold a relitigation injunction that would otherwise be granted if they had gone into an Article 3 court.

It's quite noteworthy that in this case, Vornado chose perhaps the only forum in the [30] United States where there isn't any available transfer of venue opportunity for the proceeding to be brought back before Your Honor. It's transparent that the defendant has engaged in forum shopping, it's a classic situation where relitigation injunctions have been granted in the past.

We seek no relief as to the ITC, we have tried to say this over and over again in our papers, the injunction that we suggest Your Honor enter will have no binding force

whatsoever on the ITC, and from our standpoint, the ITC no more has a stake in this case than does any federal district judge in the United States who theoretically could hear this same attempted relitigation of the same matter.

Thank you, Your Honor.

THE COURT: All right. Mr. Gowdey.

MR. GOWDEY: Well, I must say that while Mr. Dabney is a vehement and learned speaker, not a great deal of what he had to say is really relevant to the substance of what's going on here. In the first place, there is one press release; I am not aware there is going to be any other press releases with respect to the [31] show. Midwest is the case, I believe Your Honor has read, we talked about it during the telephone hearing, it is the federal circuit case that in our view has substantially changed the law, and I will get into that in just a second. Midwest has also been denied certs so the supreme court has put its stamp, its imprimatur on the Midwest decision.

Several times Mr. Dabney indicated that we can go out and now sue Duracraft. That is not the case. I think Vornado has to live with the results of the Tenth Circuit in terms of how it affected Duracraft; and, in fact, Honeywell bought Duracraft so Honeywell gets the benefit of that. We cannot affect them, we have to live with that. Vornado has not given up, it never has given up its trade dress rights or trade dress claims and has indeed attempted in the intervening years to pursue those, to do everything it can to instill in the minds of the consuming public that there are trade dress claims with respect to its spiral grill design.

In terms of the new changes of law with respect to the Midwest decision, what is new and different is that the court of appeals for the [32] federal circuit in bank in Midwest determined that where there are interactions and conflicts between patent issues, patent law issues, patent law principles and other federal and state claims, primarily Landom (sp) Act, which is what Midwest dealt with, that the federal circuit would no longer rely on regional circuit law. To the contrary, they have decided that they will rely on their own federal circuit law and precedent. And they came to that conclusion —

THE COURT: Has this circuit accepted that view?

MR. GOWDEY: Say again.

THE COURT: Has this circuit accepted that view?

MR. GOWDEY: I have no idea, but that really isn't a relevant question because by the fact there is —

THE COURT: Questions are never irrelevant.

MR. GOWDEY: The fact that there is now a patent claim joined with the trademark claim in this case places appellate jurisdiction with the federal circuit. Were this case to go forward, both the ITC case and this case would [33] both go up to the federal circuit for appellate review. Midwest has changed 180 degrees what the Tenth Circuit said with respect to the applicability interaction between patent law and trade dress, and the result in Midwest was that notwithstanding the fact that you have a patent, if you have an otherwise

permissible trade dress, you can have trade dress rights in conjunction with patent rights.

THE COURT: Well, but we have — one of the reasons the supreme court takes — grants cert is because there is a conflict in circuits, and there is a specific conflict in the ruling in the Midwest case and the ruling which was made by the Tenth Circuit in this case.

MR. GOWDEY: That's right.

THE COURT: Now —

MR. GOWDEY: And that's why we're saying there is a change in law, and getting back to the issue of —

THE COURT: That's what you indicated was my irrelevant question. I asked whether or not you knew of any case in which the Tenth Circuit had said that they were going to bow to the rulings of the federal circuit in a matter [34] of patent claims.

MR. GOWDEY: And the reason I thought that the proper answer was that that is irrelevant is because where there is a case brought in this circuit, in a district court in the Tenth Circuit, that involves both patent law issues or patent law issues combined with something else, the Tenth Circuit will not be the appellate court for that case. So the Tenth C[illegible]t will not —

THE COURT: You think now if I made a ruling in the Duracraft case that it would have gone directly to the federal circuit?

MR. GOWDEY: No, Duracraft did not include patent claims with it, and if you had a case that was solely limited to trade dress claims, the Tenth Circuit would have jurisdiction over that.

THE COURT: But the Tenth Circuit ruled in this case the reason trade dress did not apply was because of the patent.

MR. GOWDEY: That's correct.

THE COURT: So, in effect, they ruled on the patent at that time, didn't they?

MR. GOWDEY: Well, there was not a [35] patent claim in that case. As you might remember —

THE COURT: I remember the — the whole thing was on trade dress.

MR. GOWDEY: Correct.

THE COURT: I remember that. You must bear with me when I ask you these questions, Mr. Gowdey, it's to inform me of your position.

MR. GOWDEY: Correct.

THE COURT: And I have read your briefs and I — but I have some problems that I need to decide too, so go ahead with your . . .

MR. GOWDEY: Are we clear, though, as between what cases the Tenth Circuit would have appellate jurisdiction of as opposed to what the federal circuit has jurisdiction over?

THE COURT: The federal — your contention is that the Tenth Circuit would not have jurisdiction over the patent case but they would have jurisdiction over a trademark — on a trade dress case?

MR. GOWDEY: The Tenth Circuit would have jurisdiction over a case limited solely to trade dress issues. The federal —

[36] THE COURT: If it involved a patent claim along with it —

MR. GOWDEY: Then the —

THE COURT: — the trade dress and patent claim would all go to the federal circuit.

MR. GOWDEY: That's correct, Your Honor.

THE COURT: And that's the change of the law that you're talking about here?

MR. GOWDEY: Well, that plus the fact that in bank the federal circuit decided that when those situations arise, conflict between patent law and Landom Act trade dress rights, that the federal circuit will no longer apply regional circuit law, they will not apply Tenth Circuit law, they will apply federal circuit law, their own law, and their own law is 180 degrees contrary to what the Tenth Circuit held in Vornado one. And it's for that reason that we say there is no likelihood that Holmes can be successful on the merits in this case, and as a result, their motion for preliminary judgment has to fail. It has to fail by definition because this

change of law undermines entirely [37] this issue of collateral estoppel. It is not available to them, simply is not. Midwest changed all of that.

Now, with respect to the allegations they've made with respect to false statements, Mr. Dabney has time and again said that they are literally false. The one press release that Vornado issued, in fact, was not false, it was a correct statement of what was going on. It claimed — it said that the complaint filed by Vornado at the ITC made allegations, it correctly set forth what those allegations were. They're not false because of the Midwest case that provides an avenue now for a proper suit to be brought at the ITC. As Your Honor discussed and asked me awhile ago, the ITC is the correct forum to deal with the granting of exclusion orders following an investigation initiated by the commission where the effort being undertaken is to eliminate and stop improperly imported goods made overseas. The fans and everything that you see, this blizzard fan is made in China. Their — Holmes' web page said that they have an 800,000 square foot factory facility in Guangdong (sp) Province, China that's [38] manufacturing these things probably by hundreds of thousands of units, I have no idea. 800,000 square feet is an enormous size plant. They're stamped made in China. So to have any effect with respect to the patent claim and trade dress claims with respect to those fans, Vornado chose to initiate, and properly so, an action at the ITC.

As I got to you before, there is a statute referenced in our motion to stay that in ITC cases if a respondent, the defendant, is also sued in a district court, that respondent by statute can request an automatic stay of that district court

action pending final resolution of the ITC case. The reason for that is judicial economy; there's no sense having two federal courts, agencies dealing with the exact same issues. Our motion to stay, we think, is proper because we are, in a sense, in the respondent's position. We did not sue Holmes in a district court; we could have, we chose not to. They have sued us as a dec judgment defendant, which in a sense puts us in the same position as the respondent. There is no reason to have dual proceedings going, the ITC has [39] jurisdiction. As Ms. Metzger said, the ITC is going to take up this issue of collateral estoppel, trade dress rights and make that decision by January 18th, according to the last letter that I received. So they will deal with the merits raised by Mr. Dabney and will do so promptly.

There are trade shows and trade shows and trade shows, there are many of them throughout the year. As I said before, there was one trade — there was one press release that went out in November, there is not going to be another press release, that was it. I do not know what basis there is for the immediacy here, but I do know that it is impossible for Holmes to meet the four burdens that you so artfully articulated previously with respect to what preliminary injunctions require. And in view of the change of law that undermines their argument for collateral estoppel, we don't think there's any way they can be successful with respect to the first requirement that there be substantial likelihood that Holmes will eventually prevail on the merits.

Thank you.

[40] THE COURT: Mr. Dabney. Thank you, Mr. Gowdey.

MR. DABNEY: Your Honor, if anything is clear about the Midwest case, which we now see is the entire defense of Vornado, Mr. Gowdey stood up here and said that the press release was not false, quote, because of the Midwest case, unquote. So that's the whole issue here is can a — the charge that Vor — Holmes' products are infringing, which is unquestionably a defamatory and actionable charge, be justified by this case which supposedly represented a change in the law? If there's anything that's clear about the Midwest case is it said nothing about the law of res judicata or collateral estoppel. We are not before Your Honor on a case of first impression and we're going up and arguing whose principles of trade dress law are going to determine a question that the Court is considering in the first instance. That's not why we're here. We're here because there was a final judgment. And there's nothing in the Midwest case which states or suggests in any way that the court of appeals for the federal circuit would fail to recognize and give effect [41] to a duly rendered final judgment of a coequal sister circuit court of appeals. There has been no change in the law insofar as it relates to this application.

THE COURT: Doesn't the ITC give consideration to those things?

MR. DABNEY: The IT —

THE COURT: Consideration of what should be permitted to come into the United States?

MR. DABNEY: The ITC for purposes of determining whether or not there is any trade dress that could be a basis

for an exclusion order relies on the existence or nonexistence of a private right in Vornado, and the ITC is subject to collateral estoppel and res judicata just like the United States District Court for the Western District of Missouri, the United States District Court for the Southern District of New York. There is no difference in terms of —

THE COURT: Did you leave me out of that?

MR. DABNEY: No, I didn't mean to leave you out of that, Your Honor.

[42] THE COURT: You put Missouri and New York in there and left me out. I thought maybe you had some idea.

MR. DABNEY: I didn't, I was trying to illustrate the point that the choice of forum by a losing litigant has never affected whether or not res judicata applies. The law of res judicata hasn't changed, the law of res judicata is the same. And I think it's important that I point out to Your Honor that this change in the law that Mr. Gowdey keeps talking about does not represent any change in the law of res judicata or any change in the law of trade dress.

THE COURT: Res judicata —

MR. DABNEY: Yes.

THE COURT: — applies to the same parties.

MR. DABNEY: Correct.

THE COURT: The other phase of it, the — that you have to —

MR. DABNEY: Collateral estoppel.

THE COURT: Collateral estoppel.

MR. DABNEY: That's correct.

THE COURT: That's where you have to — res judicata doesn't apply in this case.

[43] MR. DABNEY: I'm — collateral estoppel, we can talk about that as a separate doctrine. For the first 15 years of its existence, that I was starting to say a moment ago, the federal circuit took the position that when in a new case that comes up and you've got a trademark claim and a patent claim joined together that it would apply federal circuit law to the patent claim and it would apply regional circuit law to the trademark claim so there would not be the incentive for forum shopping by having two different bodies of law. What the federal circuit did in the Caravan trailer case was to say that henceforth when a patent claim — when a case comes up to it that involves a patent claim and a trademark claim, henceforth it's going to apply its own law, which hasn't changed by the way, to the trade dress claim and it will no longer follow regional circuit law. I respectfully submit that that choice of law ruling, which is all it was, a choice of law ruling, is completely irrelevant to the issue before Your Honor which has to do with the enforcement and recognition of previous final judgments.

[44] And so the suggestion that the Midwest trailer case has something to say on enforcement of judgments, we respectfully submit, is completely unfounded. And I go back to my original point, if that were right, Vornado could have brought suit the day after the Tenth Circuit decision was filed in the Ninth Circuit, or indeed in the ITC, making the exact same argument because the law then was as different in the federal circuit and in other circuits as it is today. There hasn't been any change, and as Your Honor rightly pointed out, that's what we have a supreme court for, to resolve conflicts between the circuits. It's never been the case that one circuit can overrule another. Still less will one circuit purport to undo a previous judgment, final judgment, in a previous case decided by another.

So in view of the comment that the reason why Vornado's statements to the press and to our customers, there is evidence in the record that these statements Vornado has made have made their way to Holmes' customer base and they are pernicious because if the first Vornado case demonstrated anything, it is a trade dress [45] litigation is protracted and unpredictable, not to mention costly. Holmes cannot on its own respond effectively to the climate which Vornado has seen fit to create here. It was Vornado who chose to issue a press release and give interviews to the press and to release its sales force to go out and use this suit and the ITC as a selling tool as a part of a way to compete with Holmes. And if, as Mr. Gowdey says, Vornado now has come clean and it's not going to go and repeat these things anymore, then the injunctive relief we are seeking couldn't possibly cause it any harm at all.

As far as the immediacy goes, the immediacy, we respectfully submit, is clear. We've got the height of the selling season in the winter starting, we've got the big trade show going on, and we have documented evidence in the record that Vornado's accusations of trade dress infringement are having actual impact. In a case like this, you only need to show likelihood of confusion. Here the record shows actual confusion. Mr. Powers says that Holmes is getting actual phone calls from buyers seeking assurances with regard to this trade [46] dress claim. There's no way Holmes can effectively respond to that by the very nature of these claims. The leading industry publication, HFN, which is attached to Mr. Powers' declaration, its take on Vornado's position which quotes Mr. Coat (sp), the Court will remember, as accusing Holmes of thefts.

THE COURT: What?

MR. DABNEY: Thefts, T-H-E-F-T-S. That's what Holmes is telling the press. There isn't any question but that that type of statement is false and actionable under the Landom Act, it's in commerce, it's by a commercial competitor for the obvious purpose of undermining our client's business. And so if Mr. Gowdey is to be believed and Vornado doesn't really intend to issue any more releases and Vornado doesn't really intend to use these disputed claims in marketing and advertising, as I respectfully suggest, that's a reason that tips the balance of the equities even further in Holmes' favor. Vornado, as Your Honor knows from the first litigation, they use a lot of independent sales reps, there are lots of sales forces out there, no management organization can [47] control its people totally. The one thing that will

give us a prospect of relief is that if Holmes goes out and republishes these charges which are directly contrary to the judgment in Vornado one that they may be held in contempt and that may actually cause some results.

So we think that since the only argument on the merits that's really been put forward is the Midwest case and since the Midwest case does not represent any relevant change in the law and in no way calls into question the finality or the enforceability of the final judgment in Vornado one, we have demonstrated a likelihood of success on the merits. The Midwest case is no defense. And regardless of what appellate court hears any appeal from a grant of Your Honor's preliminary injunction, we are highly confident that whatever appellate court hears that will respect and enforce the final judgment of Your Honor in Vornado one.

MR. GOWDEY: Your Honor.

THE COURT: Yes, Mr. Gowdey.

MR. GOWDEY: A couple of points. I did not say that the press release was — did not contain false statements on this because of [48] Midwest. The press release correctly set forth the nature of what the complaint said at the ITC. If there were a hundred of those, they wouldn't be false. So the fact that there was one really is irrelevant. There has been a significant change with respect to this in bank ruling in Midwest. If we had — if Vornado had sued someone else at the ITC the day after the Tenth Circuit decision and it — and that was successful at the ITC and was appealed to the federal circuit, in 1995, the federal circuit would have looked at the

regional circuit court where that case came from, if it was in the Ninth Circuit or another case filed in the Tenth Circuit: Now they will apply their own law, and that law is directly 180 degrees contrary to Vornado one and the Tenth Circuit's position. As Your Honor correctly pointed out, in Midwest, the federal circuit pointed out that the Tenth Circuit stands alone in its holding. They're the only ones that held that way. The press release was informative, it was factual, and it was correct in terms of what it said. If Holmes' customers have other problems with 'em, we can't deal with that.

[49] THE COURT: Anything else you want to bring up to me?

MS. METZGER: Your Honor.

THE COURT: Yes.

MS. METZGER: May I just speak to the role of the United States?

THE COURT: Certainly you may, I'd be glad to hear from you, Ms. Metzger, please.

MS. METZGER: Thank you. I'll come forward. I just wanted to clarify, Your Honor, the role of the ITC in this proceeding since that was an issue raised in argument. I think I stated earlier but I want to clarify our breadth and scope.

We take no position, the ITC takes no position on the issue of the advertisement or any falsities that may or may not have been made: we have no position on those allegations,

Your Honor. But our role in this proceeding, and I think Mr. Dabney questioned that, is the movant Holmes has sought a restraining order or an injunction requiring withdrawal of the complaint pending presently before the ITC and ask that that complaint be withdrawn and not pursued. Our interest in this proceeding is [50] that, Your Honor, and it is our position that the Court should not — does not really have appropriate authority to mandate a withdrawal of that complaint. The Court has jurisdiction but so does the ITC over these issues.

There is a statutory scheme, a statutory process established for the ITC to hear unfair competition methods, the misappropriation of trade dress rights that are alleged in the complaint before it. It has that jurisdiction. And interestingly enough, Your Honor, in the statute that was referenced earlier that allows for a party to seek a stay of a proceeding before a district court when there is simultaneous complaints brought, there is no reverse of that in the statute, Your Honor, there is no reverse provision indicating that a stay can be sought before the ITC. It is a one-way stay provision applying only to the district court.

So, Your Honor, our concern is that this court not enjoin or restrain or direct in any way a withdrawal of that complaint, that that is a statutory basis of jurisdiction the ITC has to determine whether to initiate investigation, [51] whether to hear it or not, to determine whether or not it will intervene on issue preclusion concerns or collateral estoppel issues. There are summary judgment procedures established even before the ITC that could be utilized if that were aired, and that commission, Your Honor, has a statutory right to hear

the complaint. So our role in this proceeding is to prevent any kind of engender or court order that would withdraw anything that's pending before the ITC that it has a right to hear. I just wanted to clarify that for Your Honor.

THE COURT: Thank you very much. Yes, Mr. Dabney.

MR. DABNEY: With regard to the second form of injunctive relief we sought, the relitigation injunction, I believe we have cited eight or nine cases in which — including a Tenth Circuit case, Brown versus McCormick, in which issuing courts have issued relitigation injunctions against various types of tribunals, federal courts, state courts, in order to effectuate their judgments in a number of these cases. Those relitigation injunctions have been granted sometimes after defenses have been [52] presented to and rejected by the tribunals. In this situation, we from Holmes' perspective, the complaint that Holmes has filed in the ITC could just as well have been filed in another district court, and the Court's right and ability to determine that that attempted relitigation is a collateral attack on this Court's judgment is not affected by the fact that the ITC, in addition to having authority to actually act as kind of a quasi judicial agency, also has investigative authority. If the ITC feels that it should investigate or ought to investigate something, it doesn't need this complaint to do that. It can investigate on its own initiatives as it says in its papers. So we continue to be mystified as to why the ITC evidently believes that an injunction against attempted relitigation in the ITC somehow stands on a different footing than attempted litigation in a federal court or state court.

I would point out that in their brief on this subject, they make a number of points distinguishing the Kentucky Fried Chicken case which are incorrect. On page 9 of their brief — the Kentucky Fried Chicken case is [53] highly analogous to this case. This was a Fifth Circuit case in which a suit had been litigated to judgment in a Florida district court, which was then in the Fifth Circuit, and then parties related to the first set of litigants commenced a similar action in Kentucky which was in the Sixth Circuit. And the district court denied a relitigation injunction notwithstanding that it was very familiar with these complex trademark claims and the Fifth Circuit reversed and said it was an abuse of discretion for the district court not to grant the relitigation injunction and to force the prevailing defendant in that case to go and have to appear in the second action and run the gauntlet a second time. The government characterizes that case as involving two cases that were in the same circuit, that's not accurate. The Fifth Circuit enjoined a proceeding that was in a district court in the Sixth Circuit.

The government also attempts to distinguish that case on the grounds that there had still been the possibility of appellate review of the first case; whereas, all possible appeals in Vornado one has been exhausted. [54] That's also incorrect. All appeals have been exhausted in that case too and it also involved the same statute. This case involves the issue of trade dress protection under 43(a) which is exactly the same issue Vornado is attempting to raise. So the government's position on the relitigation injunction is notably unsupported by any authority cited in their papers, and not one of the cases cited by the government, not a single one, was there a final judgment and the kind of brazen, bare-faced

collateral attack attempt that's going on in this case. This case is a one in a million, Your Honor; it's one in a million that a litigant would attempt to come in and try to litigate, so clearly relitigate what had happened before. So I don't see that the grant of a preliminary injunction in this case would even be likely to have any constitutional significance for the government because this type of situation is exceedingly unlikely to occur.

THE COURT: Mr. Gowdey, do you have anything else you want to tell me?

MR. GOWDEY: One thing I would point out from the government's brief, Your Honor, I [55] would reference to page 7, they do note that they have not taken any position yet with the merits of Holmes' collateral estoppel issue because they see themselves as charged with ultimately addressing that issue by January 18th; and they also note on the bottom of page 7, the commission has authority to determine whether a claim is precluded or not in view of previous decisions. Thank you.

THE COURT: Well, I think what I'm going to do in this case is make a ruling on it. I will assist you if you are opposed to my ruling, either side, to get it heard expeditiously someplace else, but I think it should be done. And I take it you're ready to put up a bond in connection with this for your preliminary injunction?

MR. DABNEY: Definitely, Your Honor.

THE COURT: How much do you want to put up?

MR. DABNEY: We had suggested a bond of $10,000.00.

THE COURT: What do you say about it, Mr. Gowdey?

MR. GOWDEY: I can't believe that [56] 10,000.00 is an offer that is even legitimate.

THE COURT: No, I can't either and I think it would be a little higher than that and I'll fix a bond of about $100,000.00.

Let me tell you what the court thinks I should do. This is, as Mr. Dabney so well explains, this is a case of one in a million. You know, it's funny that I have been here and here I am getting a case one in a million, I've been on this bench a long time. But I don't think that's quite the way with our system.

The Court concludes that Holmes has made a showing that it is likely to suffer irreparable harm if injunctive relief is not granted. Specifically, Holmes has shown a threat of irreparable harm to its reputation and good will. The Court further concludes that Holmes has shown a substantial likelihood of prevailing on the merits, at least before this court, given the Tenth Circuit's findings and this court's judgment that Vornado cannot claim its grill as protected trade dress.

As for weighing the respected interests from the issuing of an injunction, the Court concludes that they weigh in favor of Holmes [57] except insofar as injunctive relief would interfere with the ongoing proceedings before the ITC.

Accordingly, the Court will grant a preliminary injunction preventing Vornado from advertising or claiming in the marketplace that Holmes is violating its trade dress, and that is directly or indirectly doing such a thing. The Court concludes, however, that it cannot and should not prevent Vornado from asserting its claim, including the claim for trade dress violation, before the ITC, and the Court finds that the public interest does not weigh in favor of an injunction prohibiting Vornado from asserting its claim before the ITC. Such an injunction would effectively interfere with the jurisdiction of the ITC and the statutory scheme established by Congress for determining claims of unfair trade practice in imported articles. It's up to the ITC and perhaps the federal circuit, if it is appealed, to determine, the first instance, what effect the Tenth Circuit judgment has on Vornado's claim before the ITC.

As for the motion for expedited discovery, I think that's moot. As for Vornado's motion to stay this action, that's been determined by the [58] Court's findings.

Why don't you get that down pretty much what I've said and I'll sign the order; and it'll go in effect as soon as your bond is put up, which I'm sure you can do promptly.

MR. DABNEY: And the bond amount?

THE COURT: 100,000.00.

MR. DABNEY: 100,000.00, thank you.

THE COURT: I can see where this is going to cause a lot of problems up and down the line and I —

MR. GOWDEY: Your Honor?

THE COURT: Yes.

MR. GOWDEY: As a point of clarification, does that mean this case is stayed pending proceedings going on at the ITC?

THE COURT: It's not stayed as far as my injunction requiring Vornado to abstain from any, directly or indirectly, with any advertising with respect to the trade dress ruling in this court.

MR. GOWDEY: Correct. But apart from that, is this case going to proceed further?

THE COURT: I don't have any objection to having it proceed further, but it's [59] not going to proceed very soon. That's the reason I'm making the issue now clear so that either one of you can do whatever you want to with it.

MR. DABNEY: Your Honor —

THE COURT: This has ramifications on various matters that I think my ruling is — would permit the going ahead with both agencies of the government — or the agency of the government to do what it's supposed to do, check on matters that come into this country. If they're bound under their ruling by this court's judgment, they'll find that, and then, of course, this would be moot anyway 'cause your action rests entirely with what your position before the ITC is concerned. And at the same time, the Holmes Group is relying

on a judgment of this court directly affecting the trade dress ruling, which we made and which in my order was made nationwide in the first case, in Vornado one.

Now, you understand what I'm saying to you, both of you, because I want you to get together and prepare the order right now and then — and then when they put up the bond, I'll [60] sign it and you can — you'll have your way to go. Your issue, as far as I'm concerned, Mr. Dabney, is based on what damage you would have if they claim a trade dress, and I said that they couldn't do that?

MR. DABNEY: That's correct. We had — at the opening of Your Honor's remarks, Your Honor appeared to be summarizing the language in the subpart A and subpart B of our wherefore clause in our motion. Is that the intent of, Your Honor, the general terms for ordering language? First two had to do with false advertising and the second two had to do with those others matters.

THE COURT: Well, I made it a little differently. The false advertising — it is advertising if it is used whether or not — I don't know quite how to say it. You can both get together and say it better than I can. You can check with me. You want to do it . . .

MR. GOWDEY: Your Honor, perhaps the thing to do is come up with a-draft and show it to you and see if it's what you said.

THE COURT: Yeah, and I'll stay here — if you both have to get away, I'll stay [61] here, and I think you might see what you can do about it.

MR. DABNEY: I would just note for the record that it is Holmes' intention to proceed further with this case and we anticipate filing a dispositive motion in the very near future —

THE COURT: Yeah.

MR. DABNEY: — due to some of the claims pending in this court.

THE COURT: Well, then we'll go on with it, that'll be fine.

MR. DABNEY: Yes.

THE COURT: This is just the preliminary injunction phase.

MR. DABNEY: Correct.

THE COURT: And I — they may have some provision about it.

MR. DABNEY: They may.

THE COURT: Mr. Gowdey, can you do that, get just the preliminary injunction part out of the way?

MR. GOWDEY: We can draft an order for Your Honor's review, yes.

THE COURT: You both are, I'm sure [62] you're acquainted with each other?

MR. GOWDEY: We're becoming acquainted.

THE COURT: Well, you're in a business where most lawyers fear to tread and most judges like to have somebody else decide the issues. But you all have tried to educate me and you've done a good job, both of you, and I appreciate your efforts, want to thank you, but I want to move it along and this will move it along as fast as I know how.

MR. DABNEY: Thank you very much, Judge.

THE COURT: Any other suggestions, additions, modifications, which I won't make?

MR. DABNEY: On the — on the expedited discovery motion.

THE COURT: Yes.

MR. DABNEY: While it was originally put forward in the context of the motion for preliminary injunction, it is Holmes' desire to proceed expeditiously with this case.

THE COURT: Well, as you know, when that comes up, it'll be put before my magistrates to go ahead with your discovery [63] proceedings and that sort of thing, when that time comes if you want to — if you can't otherwise dispose of it.

MR. GOWDEY: So am I correct, I was under the impression, Your Honor, from your answer to a previous question about the stay was that you were going to deal with

the preliminary injunction issue as you have, but this case was otherwise not going to proceed very soon, I believe is what you said?

THE COURT: Well, by the 18th, there will be some rulings in this case that may make all your issues different, and what I'm saying is I'm not staying it, but I'm not granting expedited discovery. It'll — the injunction proceeding will proceed just like any other case now. Is that —

MR. DABNEY: Yes, Your Honor, that's exactly what we had understood. May we —

MR. GOWDEY: And that's what I understood too, but Mr. Dabney seems to give me the impression that they're going to go full bore here, as well as at the ITC, and I wonder whether are we going to have judicial economy with both cases going forward?

[64] THE COURT: You can't get to me before the ITC acts. I have a case starting tomorrow that's supposed to take ten days. And if you think you're going to talk to me very much before tomorrow when I start that case, I can't do it. I can only spread myself so thin.

MR. DABNEY: May we include a proposed order that denies the motion for stay? I understand your order has denied defendant's motion for a stay in this.

THE COURT: Yes, I am not going to stay it, I want it to go ahead, but there's nothing going to happen in it, in discovery or that sort of thing, because by the time it gets —

just as a procedural matter, you understand these things, it goes to the magistrate, they'll get an order out probably of a timetable on discovery when that gets to them. I used to do it myself all the time but now I'm not — I don't do it that way, but everybody around here knows how.

MR. GOWDEY: Also include here a denial for motion of expedited discovery as well?

THE COURT: Yes, denial — and denial [65] of stay.

MR. GOWDEY: Right.

THE COURT: Put all the denials you want to in, just get it moving.

MR. GOWDEY: Thank you, Your Honor.

MR. DABNEY: Thank you, Your Honor.

THE COURT: All right. Now, do you want me to stay around, or will you give me that order in the morning?

MR. DABNEY: I think we need to get the transcript, Your Honor, and then we'll submit it tomorrow morning.

THE COURT: Okay. Mr. Goering, Mr. Brown, somebody, you two can get together and if you need — I can give you my conference room or the conference room across the hall if you want or you can go — I'm sure you can get 'em taken care of, Mr. Goering.

MR. GOERING: Yes, Your Honor.

THE COURT: Or, Mr. Brown, you have got facilities to do this. Don't need to sit around here to get it done.

MR. DABNEY: Judge, my client has just asked me a question, a point of clarification —

[66] THE COURT: Yeah.

MR. DABNEY: — about the scope of Your Honor's ruling. In our application, we had asked for a relief which would preclude talking to buyers about the trade dress. We understand that is encompassed within the concept of commercial advertising?

THE COURT: I would agree with that. You can cover that —

MR. DABNEY: — in the order.

THE COURT: The advertising is the use of the trade dress problem is how I see it and this court's judgment about it as directed by the circuit is what we're sustaining. And that's why I said direct or indirect, to cover that.

MR. DABNEY: Thank you.

THE COURT: All right.

MR. DABNEY: Yes, Your Honor.

THE COURT: Anything else?

MR. DABNEY: Not from the plaintiff, Your Honor.

THE COURT: Mr. Gowdey?

MR. GOWDEY: Not from the defendant, Your Honor.

[67] MS. METZGER: No, Your Honor.

THE COURT: Thank you. And I'm not forgetting you, Ms. Metzger.

MS. METZGER: Thank you.

THE COURT: All right. Court will be in recess subject to call. And I'll take a little adjournment tomorrow when you come up with this. When I said I wouldn't let you interrupt my proceedings, around noon tomorrow, if it's — will be fine. I'll tell Mr. Johnson and my secretary that she can book you in at around 12:30 or a quarter of 1:00 or sometime like that or 1:15 tomorrow. This shouldn't take over 15 minutes when you get it done, should it?

MR. DABNEY: I don't expect so, Your Honor.

THE COURT: So just — I can't think of anything else that I can do. All right.

(Whereupon, the proceedings were concluded at 3:57 p.m.)

* * * *

APPENDIX F — ORDER OF THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF KANSAS GRANTING PRELIMINARY INJUNCTION DATED AND FILED JANUARY 4, 2000

IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF KANSAS

No. 99-1499-WEB

THE HOLMES GROUP, INC.,

Plaintiff,

vs.

VORNADO AIR CIRCULATION SYSTEMS, INC.,

Defendant.

ORDER GRANTING PRELIMINARY INJUNCTION

On January 3, 2000, this case came before the Court for a hearing on the motion of plaintiff, The Holmes Group, Inc., for a preliminary injunction. Plaintiff, The Holmes Group, Inc. ("Holmes"), appeared by its counsel, James W. Dabney and Carol W. Wilhelm of Pennie & Edmonds, L.L.P., New York, New York, and Jim H. Goering and Timothy B. Mustaine of Foulston & Siefkin, L.L.P., Wichita, Kansas. Defendant, Vornado Air Circulation Systems, Inc., ("Vornado") appeared by its counsel, Peter W. Gowdey, Lisa A. Dunner, and Lynn Eccleston of Pillsbury, Madison & Sutro, Washington, D.C., and Edward L. Brown, Jr., Wichita, Kansas. The United States International Trade Commission

("the ITC") appeared by its counsel, Assistant United States Attorney Emily B. Metzger, Wichita, Kansas.

WHEREFORE, the Court having considered the briefs filed by Holmes and Vornado, and having heard their arguments and the views of the ITC, the Court has concluded, as heretofore expressed in the Court's oral ruling, that: (1) plaintiff Holmes has demonstrated a substantial likelihood that it will prevail on the merits in this action, given the Tenth Circuit's findings, and this Court's judgment, that Vornado cannot claim its grill as protected trade dress; (2) Holmes has shown that it is likely to suffer irreparable harm to its reputation and good will if injunctive relief is not granted; (3) Holmes has shown that the likely harm should Vornado not be enjoined from asserting its ostensible trade dress rights outweighs the likely harm should injunctive relief not be granted, except insofar as injunctive relief might interfere with proceedings before the ITC; and (4) the public interest weighs in favor of granting Holmes's requested injunction, except to the extent that the injunction would prohibit Vornado from asserting its claim before the ITC and effectively interfere with the jurisdiction of the ITC or the statutory scheme under which that agency operates.

WHEREFORE, Holmes's motion for preliminary injunction is GRANTED in part and DENIED in part, and defendant Vornado Air Circulation Systems, Inc., its officers, agents, servants, employees, and attorneys, and all other persons in active concert or participation with them who receive actual notice of this Order by personal service or otherwise, are hereby preliminarily enjoined and restrained from making or permitting to be made, in commercial

advertising or in the marketplace, directly or indirectly, any claim, description, representation, statement or assertion, explicit or implicit, specifically including but not limited to claims, descriptions, representations, statements or assertions made in press releases, advertising material distributed at any trade show, and written or oral communications with buyers or retail distributors of household fan or heater fan products, to the effect that Holmes or any Holmes product infringes any ostensible Vornado trade dress rights in spiral grill designs; provided, however, that Vornado shall not be required to withdraw its complaint lodged with the ITC nor enjoined from cooperating with any future ITC investigation.

WHEREFORE, the Court further orders, pursuant to Rule 65(c) of the Federal Rules of Civil Procedure, that Holmes shall, within ten (10) days of the date of this order, post a surety bond in the amount of one hundred thousand dollars ($100,000.00) with the Clerk of this Court, issued by a surety meeting the requirements of District of Kansas Rule 65.2, as security against such costs and damages as may be incurred by Vornado should Vornado subsequently be found to have been wrongfully enjoined by this Court in this Order.

IT IS SO ORDERED this 4th day of January, 2000.

s/ Wesley E. Brown
Wesley E. Brown
United States District Senior Judge

Approved as to Form:

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APPENDIX G — MEMORANDUM AND ORDER OF THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF KANSAS DATED AND FILED MARCH 8, 2000

IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF KANSAS

No. 99-1499-WEB

THE HOLMES GROUP, INC.,

Plaintiff,

v.

VORNADO AIR CIRCULATION SYSTEMS, INC.,

Defendant.

Memorandum and Order

Plaintiff Holmes Group Inc. filed this action seeking, among other things, a declaratory judgment holding that Holmes' sale of its fan and heater products does not infringe any valid or enforceable "trade dress" claimed by defendant Vornado under 15 U.S.C. §§ 1501 et seq. The matter is now before the court on Holmes' motion for summary judgment on its first cause of action seeking the aforementioned relief. Holmes argues it is entitled to summary judgment by virtue of the collateral estoppel effect of previous litigation involving defendant Vornado and another fan manufacturer. The court heard preliminary arguments from the parties relating to this issue at a hearing on January 3, 2000, and

concludes that further argument would not assist in deciding the questions presented.

I. *Facts.*

1. Holmes is a manufacturer of branded consumer household products. Holmes manufactures and sells a wide variety of household fan and heater products in U.S. interstate commerce, including the Holmes® Model HAOF-90 Blizzard™ Oscillating Power Table Fan; the Holmes® Model HFH 298 Power Accutemp™ Bedroom Heater; and the Holmes® Model HFH 299 Power Heater.

2. Defendant Vornado is a competitor of Holmes in the U.S. fan and heater business. Vornado sells household fan and heater products, some of which incorporate arcuate vane structures exemplified in Exhibits 11 and 12 of the declaration of James W. Dabney.

3. On or about November 26, 1999, Vornado lodged a complaint with an administrative agency in Washington, D.C., known as the International Trade Commission (the "ITC"). In its ITC complaint, Vornado claimed to be the owner of a "trade dress" comprised of a "spiral grill design" embodied in certain Vornado fan and heater products, and asserted that Holmes' sale of the Holmes products essentially infringed that trade dress in alleged violation of 15 U.S.C. § 1125(a).

4. In its answer in this action dated December 30, 1999, defendant interposed an affirmative defense which substantially repeated the trade dress allegations contained

in the ITC complaint. Defendant's answer in this action alleges that the spiral grill design embodied in certain Vornado fan and heater products constitutes non-functional trade dress and that Holmes' sale of the Holmes Products infringes that trade dress in violation of 15 U.S.C. § 1125(a).

5. The trade dress which defendant has accused Holmes of infringing in this action and in the ITC complaint, exemplified by the grill structure incorporated in the Vornado Model 550G "compact" fan depicted in Exhibit 5 to defendant's ITC complaint, is the exact same mechanical configuration which the Tenth Circuit has explicitly held "cannot be protected as trade dress" in Vornado I.

6. On November 6, 1992, Vornado commenced an action in this court entitled *Vornado Air Circulation Systems, Inc. v. Duracraft Corp.*, Civ. Action No. 92-1453-WEB (D. Kan.). Vornado's complaint asserted that the aforementioned "spiral grill design", which Vornado then referred to as the "Patented AirTensity™ Grill", constituted non-functional trade dress subject to regulation and injunction under 15 U.S.C. § 1125(a).

7. On July 5, 1995, the Tenth Circuit rendered a judgment reported at 58 F.3d 1498 which rejected defendant's trade dress claim and concluded:

> Vornado included the arcuate grill van structure as an element of its patent claims and described the configuration as providing an "optimum air flow." Then, after the first patent issued and Vornado subsequently found evidence that other

grill structures worked as well or better than the spiral grill, Vornado did not repudiate or disclaim in any way the grill element of its patent. Instead, Vornado sought and received a reissued patent that expanded its claims with respect to the grill.

Even if we discount entirely Vornado's extensive advertising campaign emphasizing the importance of the "AirTensity Grill," this patent history on its face obviates any need for a remand on the question of inventive significance. We simply take Vornado at its word. Because the "Patented AirTensity Grill" is a significant inventive element of Vornado's patented fans, it cannot be protected as trade dress.

The Tenth Circuit opinion reversed this court's initial ruling in favor of Vornado. *See Vornado Air Circulation Systems, Inc. v. Duracraft Corp.*, 1994 WL 1064319 (D. Kan., Mar. 4, 1994).

8. On January 8, 1996, the Supreme Court of the United States denied a petition by Vornado for review of the Tenth Circuit's *Vornado I* decision. This court subsequently entered final judgment dismissing with prejudice, on the merits, the trade dress claim which Vornado had asserted in *Vornado I*, and awarded costs against Vornado.

9. In *Vornado I*, the Tenth Circuit specifically considered and decided the issue of whether the arcuate or "spiral" grill configuration embodied in Vornado fan and heater products was eligible for protection as trade dress under 15 U.S.C. § 1125(a). By its complaint in the ITC and its affirmative

defense in this action, defendant seeks to re-litigate the very same issue, which was actually, necessarily, and finally decided adversely to defendant in *Vornado I*.

II. *Summary Judgment Standards.*

The standards and procedures for summary judgment are well established and will not be fully repeated here. *See Celotex Corp. v. Catrett*, 477 U.S. 317, 323-24 (1986). In essence, summary judgment is proper if the pleadings, depositions, answers to interrogatories, and admissions on file, together with the affidavits, if any, show that there is no genuine issue as to any material fact and that the moving party is entitled to judgment as a matter of law. *Id.*

III. *Arguments.*

Holmes argues that under the doctrine of collateral estoppel the judgment in *Vornado I* bars Vornado from asserting in this action that the configuration of its "AirTensity Grill" qualifies for trade dress protection under 15 U.S.C. § 1125(a). As such, Holmes contends it is entitled to summary judgment on its claim for a declaratory judgment of non-infringement. In response, Vornado contends that collateral estoppel should not be applied because there has been a fundamental change in the controlling law, and because application of the doctrine in this case would be unfair to Vornado.

IV. *Discussion.*

The federal courts have traditionally adhered to the doctrine of collateral estoppel. *Allen v. McCurry*, 449 U.S.

90, 94 (1980). Under that doctrine, "once a court has decided an issue of fact or law necessary to its judgment, that decision may preclude relitigation of the issue in a suit on a different cause of action involving a party to the first case." *Id.* The doctrine furthers several important interests: it relieves parties of the cost and vexation of multiple lawsuits, it conserves judicial resources, and, by preventing inconsistent decisions, it encourages reliance on adjudication. *Id.* The Supreme Court has recently reaffirmed the benefits of collateral estoppel and has applied it in contexts not recognized at common law. For example, the Court has eliminated the requirement of "mutuality" of parties and has permitted a litigant not a party to a federal case to assert the doctrine "offensively" in a new federal suit against the party who lost on the issue in the first case. *Id.* at 94-95.

The elements of collateral estoppel are clearly satisfied in this case.[1] The only real question is whether the doctrine should not be applied because of a change in the law since *Vornado I*. It is well established that an intervening change in the law can be a sufficient basis for declining to apply collateral estoppel. *See e.g.*, *Montana v. United States*, 440 U.S. 147, 155 (1979); *Spradling v. City of Tulsa*, 198 F.3d 1219, 1223 (10th Cir. 2000); *Bingaman v. Dept. Of Treasury*, 127 F.3d 1431, 1437 (Fed. Cir. 1997) ("In a number of cases,

1. The trade dress now claimed by Vornado is identical to that which it asserted in *Vornado I*; *Vornado I* was decided on the merits; Vornado was a party to the prior action; and Vornado had a full and fair opportunity to litigate the issue in the prior action. *See Matosantos Commercial Corp. v. Applebee's Int'l., Inc.*, 64 F.Supp.2d 1105, 1108 (D. Kan. 1999) (listing elements of collateral estoppel).

this court and others have held that a significant change in the 'legal atmosphere' — whether in the form of new legislation, a new court decision, or even a new administrative ruling — can justify a later court's refusal to give collateral estoppel effect to an earlier decision.").

Vornado contends this "change in the law" exception is met because in *Midwest Industries, Inc. v. Karavan Trailers, Inc.*, 175 F.3d 1356 (Fed. Cir. 1999), the Federal Circuit expressly rejected the Tenth Circuit's *Vornado I* holding, ruling instead that a claim for trade dress protection was not barred by the fact that a product configuration had been claimed as a significant inventive element of a patent. *Id.* at 1364. As part of its ruling in that case, the Federal Circuit abandoned its prior practice of applying regional circuit law on questions involving the relationship between patent law and other federal law rights, and said that "[h]enceforth, will apply our own law to such questions." *Id.* at 1359. This alteration is potentially significant in the instant case, because Vornado has asserted a counterclaim alleging infringement of Vornado's patent. Under 28 U.S.C. § 1295(a)(1), the Federal Circuit has exclusive jurisdiction over an appeal from a final judgment of a district court if the district court's jurisdiction is based in whole or in part on a patent claim. Thus, it is possible (although not entirely certain) that any appeal of this court's judgment will be to the Federal Circuit[2],

2. Holmes contends it is doubtful the Federal Circuit would have jurisdiction over an appeal in this case, citing the "well-pleaded complaint rule" of *Christianson v. Colt Industries*, 486 U.S. 800 (1988), and pointing out that Holmes' complaint asserts no patent claim. This court does not need to stray into this procedural thicket

(Cont'd)

and that the Federal Circuit will apply its own law to the trade dress claim — a law that is now clearly at odds with the Tenth Circuit law underlying the judgment in *Vornado I*. By contrast, if the case is found not to involve a claim under the patent laws, an appeal would go to the Tenth Circuit, which would presumably apply the same rule expressed in *Vornado I* to bar Vornado's claim of trade dress. *See* 15 U.S.C. § 1121(a).

The court concludes that this clear conflict in the substantive law of the circuits does not require, nor does it warrant, a refusal to apply the law of collateral estoppel in this action. In the prior case, Vornado had a full and fair opportunity to litigate its trade dress claim against another manufacturer, and that claim was ultimately decided against Vornado by the Tenth Circuit. Vornado petitioned the Supreme Court to review the ruling, but the Court declined to do so, leaving intact this court's resulting judgment that Vornado was barred from claiming trade dress rights in its grill design. The Tenth Circuit law upon which that judgment was based has not changed since *Vornado I*, and the court sees nothing to substantiate Vornado's hopeful speculation that if the Tenth Circuit were to revisit the issue "it would choose a different path than it articulated in *Vornado I*." Def. Mem. at 5. All of the procedural machinations and intercircuit intrigue implicated by this action cannot obscure a central truth: *Vornado I* constitutes a final and valid judgment of this court and the law upon which that judgment

(Cont'd)
to decide the issue before it. Regardless of which Court of Appeals would have jurisdiction, the court determines that the principles of collateral estoppel should be applied in this case.

was based remains unchanged. Under such circumstances, this court will not refuse to give effect to its own prior judgment.

Aside from an asserted change in the law, Vornado also points out that collateral estoppel should not be applied where it would result in unfairness to a defendant. *Citing Parklane Hosiery Co., Inc. v. Shore*, 439 U.S. 322, 331 (1979). But the unfair circumstances identified by the Court in *Parklane Hosiery* — lack of incentive to prosecute the first action, inconsistency with other judgments in favor of the defendant, and lack of procedural opportunities in the first action — are clearly not present in this case. *Cf.* at 330. Vornado nevertheless argues unfairness would result because manufacturers against whom Vornado competes may be able to obtain trade dress protection on features of a type that Vornado is barred from protecting by *Vornado I.* Def. Mem. at 4. The *Restatement (Second) of Judgments* suggests that it might be inappropriate to apply collateral estoppel where its application "would impose on one of the parties a significant disadvantage, or confer on him a significant benefit, with respect to his competitors," or where it "would result in a manifestly inequitable administration of the laws." *Restatement (Second) of Judgments*, § 28, comment c. Notwithstanding the fact that some inequality could emerge from the difference in law between the circuits, the court cannot agree that the circumstances of this case warrant re-litigation of the legal issue determined in *Vornado I.*[3]

3. As the *Restatement* points out, two concepts of equality are at odds with each other in this type of situation. One concept is that the outcomes of similar legal disputes between the same parties at (Cont'd)

As Holmes points out, conflict in the law between circuits is not unheard of, and the fact that one circuit disagrees with another does not necessarily mean the former would decline to give collateral estoppel effect to a judgment arising in the latter. But that is a matter for the Federal Circuit (or the Tenth Circuit) to determine. *Cf. Colby v. J.C. Penney Co.*, 811 F.2d 1119, 1124 (7th Cir. 1987) ("the responsibility for maintaining the law's uniformity is a responsibility of appellate rather than trial judges"). Likewise, the ITC must determine in its own right whether the doctrine of collateral

(Cont'd)
different points in time should not be disparate. The other is that the outcomes of similar legal disputes being contemporaneously determined between different parties should be resolved according to the same legal standards. *See Restatement (Second) of Judgments*, § 28, comment c. In such a situation, "the choice must be made in terms of the importance of stability in the legal relationships between the immediate parties, the actual likelihood that there are similarly situated persons who are subject to application of the rule in question, and the consequences to the latter if they are subject to different legal treatment." *Id.*

Although the foregoing standards provide fodder for both sides of the collateral estoppel argument in this case, the court finds in them no compelling reason for declining to apply the same rule that was previously applied to the same issue in *Vornado I.* The court notes that since *Vornado I*, Holmes and other companies have manufactured various products in reliance upon the rule expressed in that case. *See Marino Decl.* § 22. Failure to apply collateral estoppel here would likely create a baffling state of legal affairs insofar as manufacture of these products is concerned. *Cf. American Med. Int'l., Inc. v. Sec. of Health, Education & Welfare*, 677 F.2d 118, 123 (the surest way to obtain decisional uniformity is to give estoppel effect to the earliest judgment).

estoppel should apply to bar any of the claims now pending before it. Insofar as this action is concerned, however, this court previously entered a valid and final judgment in *Vornado I* and the Tenth Circuit law upon which that decision was based has not been changed. Under principles of collateral estoppel, the ruling in *Vornado I* bars Vornado from re-litigating the same issue in this action. Accordingly, Holmes is entitled as a matter of law to judgment declaring that it has not infringed Vornado's asserted trade dress rights.

V. *Vornado's Motion to Stay.*

The court has considered defendant Vornado's Motion to Stay (Doc. 53) pending a ruling by the Federal Circuit on Vornado's appeal of the preliminary injunction in this case, but the court concludes the motion should be denied. Given the straightforward question presented by the motion for summary judgment, the court does not believe judicial economy would be furthered by holding the motion in abeyance.

VI. *Conclusion.*

Defendant Vornado's Motion to Stay (Doc. 53) is hereby DENIED.

Plaintiff Holmes' Motion for Summary Judgment on its first cause of action (Doc. 42) is hereby GRANTED.

IT IS SO ORDERED this 8th day of March, 2000, at Wichita, Ks.

s/ Wesley E. Brown
Wesley E. Brown,
U.S. Senior District Judge

APPENDIX H — FINAL JUDGMENT OF THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF KANSAS DATED AND FILED MARCH 27, 2000

IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF KANSAS

No. 99-1499-WEB

THE HOLMES GROUP, INC.,

Plaintiff,

vs.

VORNADO AIR CIRCULATION SYSTEMS, INC.,

Defendant.

FINAL JUDGMENT

The parties having jointly moved for entry of Final Judgment pursuant to Fed. R. Civ. Proc. 54(b), and the Court expressly finding no just reason for delay in the entry of Final Judgment, it is hereby:

ORDERED, ADJUDGED, and DECREED that "Holmes is entitled as a matter of law to judgment declaring that it has not infringed Vornado's asserted trade dress rights" [Doc 72, p. 11]; "Plaintiff Holmes' Motion for Summary Judgment on its first cause of action is hereby GRANTED" [Doc. 72, p. 12.]; and Final Judgment is hereby expressly entered in favor of Holmes and against Vornado on Holmes' first cause of action seeking a declaratory judgment "holding

that Holmes' sale of its fan and heater products does not infringe any valid or enforceable 'trade dress' claimed by defendant Vornado under 15 U.S.C. §§ 1051 et seq." [Doc. 72, p. 1].

The Clerk is expressly directed to enter this Final Judgment forthwith.

SO ORDERED this 27th day of March, 2000.

s/ Wesley E. Brown
Wesley E. Brown
United States District Senior Judge

APPENDIX I — ORDER OF THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF KANSAS DATED AND FILED JUNE 12, 2000

IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF KANSAS

Civil Action No. 99-1499-WEB

THE HOLMES GROUP, INC.,

Plaintiff,

vs.

VORNADO AIR CIRCULATION SYSTEMS, INC.,

Defendant.

ORDER

This matter having been opened to the Court on the joint motion of plaintiff The Holmes Group, Inc. ("Holmes") and defendant Vornado Air Circulation Systems, Inc. ("Vornado") for an Order dismissing claims on the terms and conditions set forth herein, it is hereby ORDERED, pursuant to Fed. R. Civ. P. 41(a)(2), as follows:

1. Except insofar as they plead a right to the injunctive relief which this Court granted by Order dated January 4, 2000, the plaintiff's Second, Third, Fourth, Fifth, Sixth, and Seventh Causes of Action are hereby dismissed without prejudice to re-opening upon the motion of any party as provided in paragraph 4 of this Order.

2. All proceedings relating to the counterclaim of defendant Vornado are hereby stayed pending further Order of this Court.

3. In the event that the Final Judgment of this Court on plaintiff's First Cause of Action is affirmed on appeal, then (a) the Preliminary Injunction Order issued by this Court on January 4, 2000, shall become a Permanent Injunction Order, (b) the preliminary injunction bond previously posted by Holmes shall be released and discharged, (c) the dismissal of claims ordered in paragraph 1 of this Order shall become with prejudice; and (d) the counterclaim of Vornado shall be dismissed with prejudice.

4. In the event that the Final Judgment of this Court on plaintiff's First Cause of Action is reversed on appeal, then either party shall have the right to seek reinstatement of all claims conditionally dismissed by this Order upon motion showing any such reversal on appeal.

Dated: June 12, 2000

s/ Wesley E. Brown
Wesley E. Brown
United States District Senior Judge

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APPENDIX J — RELEVANT STATUTES

28 U.S.C. § 1295(a)(1)

§ 1295. Jurisdiction of the United States Court of Appeals for the Federal Circuit

(a) The United States Court of Appeals for the Federal Circuit shall have exclusive jurisdiction —

> **(1)** of an appeal from a final decision of a district court of the United States, the United States District Court for the District of the Canal Zone, the District Court of Guam, the District Court of the Virgin Islands, or the District Court for the Northern Marinara Islands, if the jurisdiction of that court was based, in whole or in part, on section 1338 of this title, except that a case involving a claim arising under any Act of Congress relating to copyrights, exclusive rights in mask works, or trademarks and no other claims under section 1338(a) shall be governed by sections 1291, 1292, and 1294 of this title;
>
> * * *

Appendix J

28 U.S.C. § 1338(a)

§ 1338. Patents, plant variety protection, copyrights, mask works, designs, trademarks, and unfair competition

(a) The district courts shall have original jurisdiction of any civil action arising under any Act of Congress relating to patents, plant variety protection, copyrights and trademarks. Such jurisdiction shall be exclusive of the court of the states in patent, plant variety protection and copyright cases.

* * * *

Supreme Court, U.S.
FILED
JAN 4 2002
CLERK

(3)

No. 01-408

IN THE

Supreme Court of the United States

THE HOLMES GROUP, INC.,

Petitioner,

—against—

VORNADO AIR CIRCULATION SYSTEMS, INC.,

Respondent.

ON WRIT OF CERTIORARI TO THE
UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

BRIEF FOR PETITIONER

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QUESTIONS PRESENTED

Petitioner commenced this civil action in the United States District Court for the District of Kansas. Petitioner's complaint sought injunctive, monetary, and declaratory relief under 15 U.S.C. § 1125(a) and applicable state law. In March 2000, the District Court granted summary judgment in favor of Petitioner on its First Cause of Action, holding that Petitioner's "sale of its fan and heater products does not infringe any valid or enforceable 'trade dress' claimed by [Respondent] under 15 U.S.C. §§ 1051 et seq." Final judgment was then entered in favor of Petitioner pursuant to Rule 54(b) of the Federal Rules of Civil Procedure.

Respondent timely filed a Notice of Appeal from the District Court's judgment; however, instead of appealing to the Court of Appeals for the Tenth Circuit, Respondent directed its appeal to the Court of Appeals for the Federal Circuit. Respondent contended that the Federal Circuit had appellate jurisdiction under 28 U.S.C. § 1295(a)(1), not based on anything pleaded in Petitioner's complaint or decided by the District Court, but based on Respondent's having included, in its answer, a counterclaim against Petitioner for alleged patent infringement. The Respondent's counterclaim was extraneous to the District Court's jurisdiction to hear Petitioner's suit and formed no part of the judgment from which Respondent had appealed. In its brief filed with the Federal Circuit, Petitioner urged that Respondent's appeal be dismissed for lack of appellate jurisdiction or, alternatively, transferred to the Tenth Circuit pursuant to 28 U.S.C. § 1631.

On June 5, 2001, the Federal Circuit summarily vacated the District Court's judgment and remanded for further

proceedings. In direct conflict with decisions of this Court, the Federal Circuit has taken the position that a plaintiff's well-pleaded complaint does not determine whether a civil action is one "arising under" federal patent law for purposes of 28 U.S.C. §§ 1295(a)(1) and 1338(a). Rather, according to the Federal Circuit, the answer of a defendant must be consulted to determine whether a case is one "arising under" federal patent law; and if a defendant's answer includes a patent law counterclaim *against* the plaintiff, then, as exemplified by the decision below, the Federal Circuit rule is that the defendant's pleading purportedly operates to change the basis of a district court's jurisdiction and cuts off regional Circuit jurisdiction over the plaintiff's suit.

The Federal Circuit's interpretation of 28 U.S.C. §§ 1295(a)(1) and 1338(a) purports to displace vast sectors of regional Circuit jurisdiction and to vest in defendants, rather than plaintiffs, control over what appellate court will determine, and what law may govern, broad categories of claims arising under copyright, trademark, antitrust, contract, defamation, and other non-patent laws.

The questions presented are:

1. Does 28 U.S.C. § 1295(a)(1) divest regional Circuits of jurisdiction over cases in which the well-pleaded complaint of the prevailing plaintiff does not allege any claim arising under federal patent law?

2. Did the Court of Appeals for the Federal Ci. uit err in concluding that this action is a "patent case," that is, a "civil action arising under" federal patent law for purposes of 28 U.S.C. §§ 1295(a)(1) and 1338(a)?

CORPORATE DISCLOSURE STATEMENT

Petitioner hereby identifies Berkshire Partners L.L.C. as a parent corporation owing 10% or more of Petitioner's stock. No publicly held company owns 10% or more of the stock of the Petitioner.

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OPINIONS BELOW

The opinion of the Court of Appeals is unreported and appears in the Joint Appendix ("JA") at JA33-34. The opinion of the District Court is reported at 93 F. Supp. 2d 1140 and appears at JA88-98. The final judgment of the District Court appears at JA99-100.

STATEMENT OF JURISDICTION

The judgment of the Court of Appeals was entered on June 5, 2001. No petition for rehearing was filed. This Court's jurisdiction is invoked under 28 U.S.C. § 1254(1).

The District Court had jurisdiction to hear Petitioner's claims under 15 U.S.C. § 1121 and 28 U.S.C. §§ 1331, 1332(a), and 1367. In the decision below, the Court of Appeals for the Federal Circuit purported to exercise appellate jurisdiction under 28 U.S.C. § 1295(a)(1).

STATUTORY PROVISIONS INVOLVED

This case involves the scope of Federal Circuit appellate jurisdiction under 28 U.S.C. § 1295(a)(1), which in turn is governed by the "well-pleaded complaint rule" of 28 U.S.C. § 1338(a). The text of these statutory provisions is reprinted at JA104-05.

STATEMENT OF THE CASE

Petitioner manufactures and sells HOLMES® brand consumer household products, including household fan and heater fan products. Respondent is a competitor of Petitioner in the United States fan and heater business. Both parties

manufacture and sell axial-flow fan and heater fan products whose outlet grill structures incorporate a series of arcuate or curved vanes for directing air flow.

In *Vornado Air Circulation Sys., Inc. v. Duracraft Corp.*, 58 F.3d 1498 (10th Cir. 1995), *cert. denied*, 516 U.S. 1067 (1996) ("*Vornado I*"), the Court of Appeals for the Tenth Circuit held that the "arcuate grill vane structure" incorporated in certain fan and heater products sold by Respondent "cannot be protected as trade dress" under 15 U.S.C. § 1125(a). *Id.* at 1510 (Lodging ["L"] at L60). Despite this holding, the Respondent, in late 1999, issued a press release and otherwise publicly accused Petitioner of "infringing" exactly the same alleged "trade dress" that had been held invalid and unprotectable in *Vornado I* (JA47-48).[1]

Petitioner commenced this civil action on December 8, 1999, in the United States District Court for the District of Kansas. Petitioner's complaint (L1-86) set forth seven causes of action against Respondent: (1) declaratory judgment of non-liability under 15 U.S.C. § 1125(a); (2) violation of MASS. GEN. L. ch. 93A, §§ 2 and 11; (3) violation of 15 U.S.C. § 1125(a); (4) tortious interference with prospective economic advantage; (5) defamation; (6) unfair competition; and (7) injurious falsehood (L2-15). Petitioner's complaint invoked jurisdiction under "15 U.S.C. § 1121, 28 U.S.C. §§ 1331 and 1332(a), and the principles of supplemental jurisdiction codified in 28 U.S.C. § 1367" (L2).

1. Descriptions of the Respondent's actions giving rise to this action appear in the Declaration of Paul J. Powers, sworn to December 17, 1999, the Declaration of Francis E. Marino, sworn to December 17, 1999, and the Declaration of James W. Dabney sworn to December 17, 1999, and filed with the District Court (JA13-15).

On December 17, 1999, Petitioner moved for a preliminary injunction restraining Respondent from falsely claiming, in commercial advertising or promotion, that HOLMES® products sold by Petitioner purportedly infringed "trade dress" rights claimed by Respondent under 15 U.S.C. § 1125(a) (JA13). On January 4, 2000, the District Court issued an "Order Granting Preliminary Injunction" (JA84-86) under which Respondent was "enjoined and restrained from making or permitting to be made, in commercial advertising or in the marketplace, directly or indirectly, any claim . . . to the effect that Holmes or any Holmes product infringes any ostensible Vornado trade dress rights in spiral grill designs. . . . " (JA85-86).[2]

On January 7, 2000, Petitioner moved for summary judgment on its First Cause of Action seeking a declaratory judgment that its sale of HOLMES® products does not infringe any valid or enforceable "trade dress" rights claimed by Respondent under 15 U.S.C. § 1125(a). Petitioner's motion was granted by Order dated March 8, 2000. *Holmes*

2. In addition to seeking preliminary injunctive relief against false advertising by Respondent in the marketplace, Petitioner sought an order under 28 U.S.C. § 1651(a) (L10) restraining Respondent from attempting to re-litigate its purported "trade dress" claim in the context of a quasi-judicial, administrative "investigation" proceeding under 19 U.S.C. § 1337 before the International Trade Commission ("ITC"), with which Respondent had lodged a complaint on November 24, 1999 (L7-8, L61-86). The District Court denied the latter aspect of Petitioner's motion for preliminary injunctive relief (JA86), ruling that "Vornado shall not be required to withdraw its complaint lodged with the ITC nor enjoined from cooperating with any future ITC investigation" (JA86). The ITC subsequently instituted Investigation No. 337-TA-426 (the "ITC proceeding"). *See* 65 Fed. Reg. 4260 (Jan. 26, 2000). The ITC proceeding was ultimately terminated on July 20, 2000, with no action having been taken against Petitioner. *See* 65 Fed. Reg. 45999 (July 26, 2000).

Group, Inc. v. Vornado Air Circulation Systems, Inc., 93 F. Supp. 2d 1140 (D. Kan. 2000) (JA88-98).

The District Court concluded that the final judgment of invalidity rendered in the *Vornado I* case collaterally estopped Respondent from re-litigating the validity of the same alleged "trade dress" that had been the subject of the earlier case:

> [T]his Court previously entered a valid and final judgment in *Vornado I* and the Tenth Circuit law upon which that decision was based has not been changed. Under principles of collateral estoppel, the ruling in *Vornado I* bars Vornado from re-litigating the same issue in this action. Accordingly, Holmes is entitled as a matter of law to judgment declaring that it has not infringed Vornado's asserted trade dress rights.

Id. at 1144-45 (JA98).

The District Court noted Respondent's argument that the Federal Circuit, rather than the Tenth Circuit, assertedly would have appellate jurisdiction over this case based on the contents of an answer that Respondent had served in response to Petitioner's complaint,[3] but concluded:

3. In an Answer served December 30, 1999 (L87-147), Respondent asserted a counterclaim against Petitioner (L98-100) alleging that one of the products accused of "trade dress" infringement assertedly infringed a patent owned by Respondent. Based on this answer and counterclaim, the District Court noted that "it is possible (although not entirely certain) that any appeal of this court's judgment will be to the Federal Circuit," 93 F. Supp. 2d at 1143 (JA94), and further noted that Petitioner had disputed Respondent' suggestion that its counterclaim ousted the Tenth Circuit of jurisdiction. *Id.* at 1143 n.2 (JA95).

"This court does not need to stray into this procedural thicket to decide the issue before it. Regardless of which Court of Appeals would have jurisdiction, the court determines the principles of collateral estoppel should be applied in this case." *Id.* at 1143 n.2 (JA95).

The District Court viewed the legal effect of its prior judgment in *Vornado I* as being a question of "Tenth Circuit law." *Id.* at 1143-44 (JA95, 98). The District Court applied the Tenth Circuit collateral estoppel standard and found that "[t]he elements of collateral estoppel are clearly satisfied in this case":

> The trade dress now claimed by Vornado is identical to that which it asserted in *Vornado I*; *Vornado I* was decided on the merits; Vornado was a party to the prior action; and Vornado had a full and fair opportunity to litigate the issue in the prior action.

Id. at 1142 n.1 (JA93).

At oral argument before the District Court, counsel for Respondent conceded (JA56) that the final judgment in *Vornado I* remained valid and binding with respect to fan and heater fan products being sold by Petitioner's competitor, Honeywell Inc. f/k/a Duracraft Corp, which had been the prevailing party in *Vornado I*.[4] The District Court further observed that "since *Vornado I*, Holmes and other companies have manufactured various products in reliance upon the rule

4. *See* JA56 (MR. GOWDEY: "I think Vornado has to live with the results of the Tenth Circuit in terms of how it affected Duracraft and in fact, Honeywell bought Duracraft so they get the benefit of that. We cannot affect them, we have to live with that.").

expressed in that case," *id*. at 1144 n.3 (JA97), so that "failure to apply collateral estoppel here would likely create a baffling state of legal affairs insofar as manufacture of these products is concerned." *Id.*

The District Court rejected Respondent's contention that a 1999 decision of the Court of Appeals for the Federal Circuit represented a "change in the law" warranting re-litigation of whether the arcuate or "spiral" grill configuration embodied in Vornado fan and heater products was eligible for protection as "trade dress" under Section 43(a) of the Lanham Act, 15 U.S.C. § 1125(a). 93 F. Supp. 2d at 1143 (JA94-96). The cited decision of the Federal Circuit did not represent any "change" in substantive "trade dress" principles, even within the Federal Circuit.[5] Equally important, the

5. In *Midwest Indus., Inc. v. Karavan Trailers, Inc.*, 175 F.3d 1356 (Fed. Cir.), *cert. denied*, 528 U.S. 1019 (1999), *overruled by TrafFix Devices, Inc. v. Marketing Displays, Inc.*, 121 S. Ct. 1255 (2001), the Federal Circuit held that it would start applying "its own" law, in place of regional Circuit law, in determining whether or to what extent product configurations were protectable as "trade dress" under Section 43(a) of the Lanham Act, 15 U.S.C. § 1125(a). *Id.* at 1361, *overruling Cable Elec. Prods., Inc. v. Genmark*, 770 F.2d 1015, 1029 (Fed. Cir. 1985). The Federal Circuit then proceeded to reiterate its long-standing view – which the Tenth Circuit had rejected in *Vornado I* – that any product configuration could be protectable as "trade dress" under the Lanham Act unless found to be "functional" in a federal common law sense of having "such utility that its protection would hinder competition." *Id* at 1361-62 (citing authorities).

In *TrafFix*, this Court resolved the conflict that had existed between the *Midwest* and *Vornado I* decisions, 121 S. Ct. at 1259, and did so by (a) rejecting the standard of "functionality" articulated by the Federal Circuit in *Midwest*, and (b) embracing a standard of "functionality" that was and is fully consistent with both the reasoning and the holding of the Tenth Circuit in *Vornado I*. *Id*. at 1261-62.

enforceability of a final judgment has never depended on the state of the substantive law of a court or jurisdiction asked to enforce the judgment:

> The fact that the substantive law may be different in the two jurisdictions does not affect the application of issue preclusion. Therefore, different interpretations of a statute between circuit courts of appeal would not affect the application of issue preclusion to a sister court's previously litigated issue.

18 J. MOORE, MOORE'S FEDERAL PRACTICE § 132.03[6][a] (3d ed. 2000). *See, e.g., Arkla, Inc. v. United States*, 37 F.3d 621, 626-27 (Fed. Cir. 1994), *cert. denied*, 514 U.S. 1035 (1995); *Yamaha Corp. v. United States*, 961 F.2d 245, 258 (D.C. Cir. 1992), *cert. denied*, 506 U.S. 1078 (1993).[6]

Thus, in the District Court's view, the long-standing (and since resolved, *see TrafFix*, 121 S. Ct. 1261-62) "conflict in the substantive law" between the Federal Circuit and the Tenth Circuit "does not require, nor does it warrant, a refusal to apply the law of collateral estoppel in this action." 93 F. Supp. 2d at 1143 (JA95-96):

> Vornado had a full and fair opportunity to litigate its trade dress claim against another manufacturer,

6. *Cf. Williams v. North Carolina*, 317 U.S. 287, 294 (1942) (judgment of divorce entitled to full faith and credit, notwithstanding that grounds for divorce were not recognized in jurisdiction where judgment was presented as defense); *Fauntleroy v. Lum*, 210 U.S. 230, 236-38 (1908) (judgment for money damages entitled to full faith and credit, notwithstanding that claim would not be enforceable if brought in jurisdiction where judgment sought to be enforced).

> and that claim was ultimately decided against Vornado by the Tenth Circuit. Vornado petitioned the Supreme Court to review the ruling, but the Court declined to do so, leaving intact this court's resulting judgment that Vornado was barred from claiming trade dress rights in its grill design. The Tenth Circuit law upon which that judgment was based has not changed since *Vornado I*, and the court sees nothing to substantiate Vornado's hopeful speculation that if the Tenth Circuit were to revisit the issue "it would choose a different path than it articulated in *Vornado I*." Def. Mem. at 5.

On March 27, 2000, the District Court entered a Final Judgment under FED. R. CIV. P. 54(b) that provided in pertinent part (JA99-100):

> Holmes is entitled as a matter of law to judgment declaring that it has not infringed Vornado's asserted trade dress rights [Doc. 72, p. 1]; Plaintiff Holmes' Motion for Summary Judgment on its first cause of action is hereby GRANTED [Doc. 72, p. 12]; and Final Judgment is hereby expressly entered in favor of Holmes and against Vornado on Holmes' first cause of action seeking a declaratory judgment holding that Holmes' sale of its fan and heater products does not infringe any valid or enforceable "trade dress" claimed by defendant Vornado under 15 U.S.C. §§ 1051 et seq. [Doc. 72, p. 1].

Notwithstanding that (1) Petitioner's complaint did not allege any claim arising under federal patent law, (2) the

District Court's judgment did not adjudicate any claim that arose under federal patent law, and (3) Respondent was openly attempting to mount a collateral attack on a prior judgment of the Tenth Circuit, Respondent filed a Notice of Appeal directed to the Federal Circuit. The sole purported basis of appellate jurisdiction in was the one noted by the District Court: Respondent's having included, in its answer to Petitioner's complaint, a counterclaim against Petitioner for alleged patent infringement.

According to Respondent, the service of its answer and counterclaim had automatically transformed this civil action into a "patent . . . case," 28 U.S.C. § 1338(a), with the purported result that the Tenth Circuit was ousted of jurisdiction over Petitioner's suit by operation of 28 U.S.C. § 1295(a)(1) (L257-63). Respondent further argued that its answer and counterclaim had effected a fundamental change in the substantive law governing the merits of Petitioner's claims arising under both the Lanham Act and state law (L168-70, L173-80).[7] Respondent's position thus was — and

7. Early in its history, the Federal Circuit justified taking an expansive view of its jurisdiction under 28 U.S.C. § 1295(a)(1) in part on the basis that it would be applying regional Circuit law "in all but the substantive law fields assigned exclusively to this court." *Atari, Inc. v. JS&A Group, Inc.*, 747 F.2d 1422, 1439 (Fed. Cir. 1984) (*en banc*), *overruled by Nobelpharma AB v. Implant Innovations, Inc.*, 141 F.3d 1059, 1068 (Fed. Cir.), *cert. denied*, 525 U.S. 876 (1998). The Federal Circuit stated in 1984, relatively shortly after the enactment of 28 U.S.C. § 1295(a)(1), that Congress's "passage" of that statute "reflect[ed] its expectation that this court would not appropriate or usurp for itself a broad guiding role for the district courts beyond its mandate to contribute to uniformity of the substantive law of patents, plant variety, and the Little Tucker Act." *Atari*, 747 F.2d at 1438. The Federal Circuit further observed in (Cont'd)

in this Court remains — that the Federal Circuit, rather than the Tenth Circuit, should determine whether a prior judgment of the Tenth Circuit operates to bar Respondent from re-litigating the validity of a "trade dress" claim purportedly grounded in Section 43(a) of the Lanham Act, simply because Respondent's answer to Petitioner's complaint included a patent law counterclaim.[8]

(Cont'd)
1984: "A district court judge should not be expected to look over his shoulder to the law in this circuit, save as to those claims over which our subject matter jurisdiction is exclusive." *Id.* at 1439.

In the late 1990's, however, the Federal Circuit abruptly reversed field and held that it would start fashioning "its own" substantive liability rules for antitrust, "trade dress," and other claims over which it had only pendent or non-exclusive jurisdiction. *E.g.*, *In re Independent Service Organizations Antitrust Litigation*, 203 F.3d 1322, 1324-27 (Fed. Cir. 2000), *cert. denied*, 121 S. Ct. 1077 (2001); *Zenith Electronics Corp. v. Elotouch Sys., Inc.*, 182 F.3d 1340, 1354-55 (Fed. Cir. 1999); *Hunter Douglas, Inc. v. Harmonic Designs, Inc.*, 153 F.3d 1318, 1335-38 (Fed. Cir. 1998), *cert. denied*, 525 U.S. 1143 (1999), *overruled by Midwest*, 175 F.3d at 1359; *Nobelpharma*, 141 F.3d at 1439. The Federal Circuit justified its changed position on the basis that it was, in its words, "the tribunal having sole appellate responsibility for the development of patent law," 175 F.3d at 1360, which "responsibility" was further said to include "decid[ing] what patent law permits and prohibits" when asserted as a defense to a claim arising under non-patent law. *Id.* at 1360-61.

8. Although not germane to the jurisdictional questions before this Court, it may be noted that the Respondent never has pursued its counterclaim for alleged patent infringement. That counterclaim was effectively withdrawn, and all proceedings relating to the counterclaim were indefinitely stayed, as part of a conditional Order of dismissal entered June 12, 2000, pursuant to FED. R. CIV. P. 41(a)(2) (JA101-102). In the event that the summary judgment in favor of Petitioner is affirmed on appeal, the Respondent's counterclaim will be finally dismissed with prejudice (JA102).

As it had done in the District Court (JA42-43, JA94), Petitioner filed a brief with the Federal Circuit (L203-45) contesting that Court's appellate jurisdiction and urging that Respondent's appeal be dismissed for lack of jurisdiction or transferred to the Tenth Circuit pursuant to 28 U.S.C. § 1631 (L216, 228-34). In the alternative, Petitioner urged that the District Court's grant of summary judgment be affirmed (L234-44).

On June 5, 2001, the Court of Appeals for the Federal Circuit issued a two-page Order that simply stated (JA33-34):

> (1) The March 27, 2000 judgment of the United States District Court for the District of Kansas is vacated.
>
> (2) The case is remanded to the United States District Court for the District of Kansas for further proceedings in light of the decision of the Supreme Court of the United States in *TrafFix Devices v. Marketing Displays, Inc.*, 121 S. Ct. 1255 (2001). The district court is directed to consider whether the "change in the law" exception to collateral estoppel applies in view of the *TrafFix* decision, and if appropriate, then to consider the case on the merits.
>
> (3) Each side shall bear its own costs.

SUMMARY OF ARGUMENT

A "civil action" is a legal proceeding "commenced by filing a complaint with the court." FED R. CIV. P. 3. To fall with the exclusive appellate jurisdiction of the Federal Circuit under 28 U.S.C. § 1295(a)(1), a "civil action" must be a "patent . . . case," that is, a "civil action arising under any Act of Congress relating to patents, [or] plant variety protection." 28 U.S.C. § 1338(a). *See Christianson v. Colt Indus. Operating Corp*, 486 U.S. 800, 807-810, 813-14 (1988).

Under *Christianson*, whether a "civil action" is one "arising under" federal patent law, and is thus a "patent case" subject to exclusive Federal Circuit jurisdiction under 28 U.S.C. § 1295(a)(1), depends on whether "a well-pleaded complaint establishes either that federal patent law creates the cause of action or that the plaintiff's right to relief necessarily depends on resolution of a substantial question of federal patent law, in that patent law is a necessary element of one of the well-pleaded claims." *Id.* at 809.

The "well-pleaded complaint rule" is a "powerful doctrine," *Franchise Tax Board v. Construction Laborers Trust*, 463 U.S. 1, 9 (1983), which has long provided that "the plaintiff is absolute master of what jurisdiction he will appeal to." *Healy v. Sea Gull Specialty Co*, 237 U.S. 479, 480 (1915) (Holmes, J.), *quoted in Merrell Dow Pharm. Inc. v. Thompson*, 478 U.S. 804, 809 n.6 (1986). *See also Caterpillar Inc. v. Williams*, 482 U.S. 386, 392 (1987); *Pan American Petroleum Corp. v. Superior Court*, 366 U.S. 656, 662 (1961); *The Fair v. Kohler Die & Specialty Co.*, 228 U.S. 22, 25 (1913) (Holmes, J.).

The cases are legion holding that a counterclaim in a defendant's answer does not, and cannot, transform a "civil action" into one "arising under" federal law for jurisdictional purposes, even when a defendant's counterclaim expressly invokes federal law.[9] Were the rule otherwise, "the plaintiff would be master of nothing." *Caterpillar*, 482 U.S. at 399.

The "well-pleaded complaint rule" often results in regional Circuits or state courts deciding questions of federal patent law. *E.g.*, *Christianson*, 486 U.S. at 819 (regional Circuit had jurisdiction to review antitrust judgment based on alleged procurement of invalid patents); *Lear, Inc. v. Adkins*, 395 U.S. 653 (1969) (state court had jurisdiction to determine validity of patent in context of action for breach of a license agreement); *American Well Works Co. v. Layne & Bowler Co.*, 241 U.S. 257 (1916) (state court had jurisdiction to hear action for slander of title arising from allegations of patent infringement); *Pratt v. Paris Gas Light & Coke Co.*, 168 U.S. 255 (1897) (state court had jurisdiction to hear action for breach of undertaking to defend against claim of alleged patent infringement).

The exclusive jurisdiction of the Federal Circuit under 28 U.S.C. § 1295(a)(1) thus excludes, by design, a substantial number of cases in which questions and issues of federal

9. *See, e.g.*, *Saturday Evening Post Co. v. Rumbleseat Press, Inc.*, 816 F.2d 1191, 1195 (7th Cir. 1987) (Posner, J.) ("That federal jurisdiction depends on the complaint rather than on the answer, counterclaim, or other subsequent pleadings is an aspect of the 'well-pleaded complaint' rule. . . ."); *Cook v. Georgetown Steel Corp.*, 770 F.2d 1272, 1275 (4th Cir. 1985) (no "arising under" jurisdiction when only federal issue raised by counterclaim); *Takeda v. Northwestern Nat'l Life Ins. Co.*, 765 F.2d 815, 822 (9th Cir. 1985) (federal law counterclaim did not support "arising under" jurisdiction as basis for removal).

patent law are raised, as the Federal Circuit has itself acknowledged on occasion.[10] Preserving regional Circuit jurisdiction over antitrust, copyright, "trade dress," defamation, and other cases such as the present one, in which the plaintiff's complaint does not depend on federal patent law, is fully consistent with the careful balance that Congress struck in (1) creating exclusive Federal Circuit jurisdiction in 28 U.S.C. § 1295(a)(1), but (2) limiting that jurisdiction to true "patent cases," 28 U.S.C. § 1338(a), i.e., ones "arising under" federal patent law within the meaning of this Court's "'arising under' jurisprudence." *Christianson*, 486 U.S. at 808 n.2.

The instant case clearly is not a "patent case," *i.e.*, a "civil action arising under any Act of Congress relating to patents" within the meaning of 28 U.S.C. §§ 1338(a) and 1295(a)(1). It therefore was clear error for the Federal Circuit to have taken appellate jurisdiction and vacated the District Court's decision in this case. As was done in *Christianson*, the decision of the Federal Circuit should be reversed, and the cause remanded to the Tenth Circuit for further proceedings. Alternatively, the Court should affirm the summary judgment the District Court entered in favor of Petitioner.

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10. *Cf. Jim Arnold Corp. v. Hydrotech Sys., Inc.*, 109 F.3d 1567, 1571-78 (Fed. Cir.), *cert. denied*, 522 U.S. 933 (1997) (action brought by patent assignor was not one "arising under" federal patent law; judgment vacated for lack of jurisdiction).

ARGUMENT

I. FEDERAL CIRCUIT JURISDICTION UNDER 28 U.S.C. § 1295(a)(1) IS LIMITED TO CASES "ARISING UNDER" FEDERAL PATENT LAW.

28 U.S.C. § 1295(a)(1) provides that Federal Circuit shall have exclusive jurisdiction (JA104):

> (1) of an appeal from a final decision of a district court of the United States . . . , if the jurisdiction of that court was based, in whole or in part, on section 1338 of this title, except that a case involving a claim arising under any Act of Congress relating to copyrights, exclusive rights in mask works, or trademarks and no other claims under section 1338(a) shall be governed by sections 1291, 1292, and 1294 of this title. . . .

28 U.S.C. § 1338(a), in turn, provides (JA105):

> The district courts shall have original jurisdiction of any civil action arising under any Act of Congress relating to patents, plant variety protection, copyrights and trademarks. Such jurisdiction shall be exclusive of the courts of the states in patent, plant variety protection and copyright cases.

In *Christianson v. Colt Indus. Operating Corp.*, 486 U.S. 800 (1988), this Court held that the "arising under" language of 28 U.S.C. § 1338(a) both defined and limited the scope of the Federal Circuit's appellate jurisdiction under 28 U.S.C. § 1295(a). In particular, *Christianson* held that:

(a) the "arising under" jurisprudence developed under 28 U.S.C. § 1331 applies equally to 28 U.S.C. § 1338(a), 486 U.S. at 807-809, 813-14, notwithstanding that "in this case our interpretation of § 1338(a)'s 'arising under' language will merely determine which of two federal appellate courts will decide the appeal," *id.* at 808 n.2;

(b) the "well-pleaded complaint rule" governs whether a civil action is one "arising under" federal patent law, or not, *id.* at 808-09, 813-14; and

(c) the Federal Circuit lacked jurisdiction over the *Christianson* case, because the plaintiff's complaint in that case did not establish "either that federal patent law create[d] the cause of action or that the plaintiff's right to relief necessarily depends on resolution of a substantial question of federal patent law, in that patent law is a necessary element of one of the well-pleaded claims," *id.* at 809, 810-13.

In *Christianson*, this Court vacated a judgment of the Federal Circuit and remanded with instructions to transfer the case to the Court of Appeals for the Seventh Circuit, *id.* at 819, even though the District Court in *Christianson* had "invalidated nine of Colt's patents," *id.* at 806, and even though the plaintiffs in *Christianson* had prevailed at trial on claims alleging that the defendant had wrongfully procured United States patents in alleged violation of the "best mode" requirement of 35 U.S.C. § 112. *See Christianson v. Colt Indus. Operating Corp.*, 609 F. Supp. 330 (N.D. Ill. 1985).

Vacatur of the Federal Circuit's judgment in *Christianson* was required, this Court held, because "the district court's jurisdiction is determined by reference to the well-pleaded complaint, not the well-tried case," 486 U.S. at 814, and neither of the two causes of action pleaded in the *Christianson* plaintiffs' complaint were ones "arising under" federal patent law.[11]

In support of its holding that "the well-pleaded complaint, not the well-tried case, [is] the referent for the Federal Circuit's jurisdiction," *Christianson*, 486 U.S. at 814, this Court cited "[t]he legislative history of the Federal Circuit's jurisdictional provisions" as stating that "cases fall within the Federal Circuit's patent jurisdiction 'in the same sense that cases are said to 'arise under' federal law for purposes of federal question jurisdiction.'" *Id.* (quoting H.R. REP. No. 97-312 at 41 (1981)). The Court accordingly had "no more authority to read § 1295(a)(1) as granting the Federal Circuit jurisdiction over an appeal where the

11. The complaint in *Christianson* set forth two causes of action, for federal antitrust liability under 15 U.S.C. § 15 and for tortious interference with business relationships under state law. Both causes of action were based, in part, on allegations that the defendant had published false statements accusing the plaintiffs of misappropriating trade secrets relating to M16 rifle parts that were, or had been, the subject of issued patents. 486 U.S. at 804-06. The plaintiffs alleged that the defendant's liability was established, in part, by the defendant's having allegedly procured patents in violation of the "best mode" requirement of 35 U.S.C. § 112; for if the defendant had complied with that statute, the plaintiff's theory went, the defendant could not have retained any trade secrets in the claimed subject matter disclosed in the patents. The District Court had ruled in favor of the petitioner in *Christianson*, "essentially relying on the [35 U.S.C.] § 112 theory articulated above," *id.* at 806, and had "invalidated nine of Colt's patents." *Id.*

well-pleaded complaint does not depend on patent law, than to read § 1338(a) as granting a district court jurisdiction over such a complaint." 486 U.S. at 813-14.

The jurisdictional framework controlling the present case is the same as it was in *Christianson*, *id.* at 807:

> As relevant here, 28 U.S.C. § 1295(a)(1) grants the Court of Appeals for the Federal Circuit exclusive jurisdiction over "an appeal from a final decision of a district court of the United States . . . if the jurisdiction of that court was based, in whole or in part, on [28 U.S.C.] section 1338. . . ." Section 1338(a), in turn, provides in relevant part that "[t]he district courts shall have original jurisdiction of any civil action arising under any Act of Congress relating to patents. . . ." Thus, the jurisdictional issue before us turns on whether this is a case "arising under" a federal patent statute, for if it is then the jurisdiction of the District Court was based at least "in part" on § 1338(a).

"The 'well-pleaded complaint rule' is the basic principle marking the boundaries of the federal question jurisdiction of the federal district courts." *Metropolitan Life Ins. Co. v. Taylor*, 481 U.S. 58, 63 (1987). "Under the well-pleaded complaint rule, as appropriately adapted to § 1338(a), whether a claim 'arises under' patent law must be determined from what necessarily appears in the plaintiff's statement of his own claim in the bill or declaration. . . ." *Christianson*, 486 U.S. at 809 (quoting *Franchise Tax Board v. Construction Laborers Vacation Trust*, 463 U.S. 1, 10 (1983) (quoting *Taylor v. Anderson*, 234 U.S. 74, 75-76 (1914))).

The "well-pleaded complaint rule" embodies a number of long-established principles of federal court jurisdiction, one of which is the "plaintiff's traditional prerogative of forum selection." 14B C. WRIGHT, A. MILLER & E. COOPER, FEDERAL PRACTICE AND PROCEDURE § 3722, at 453 (3d 1998). Time and time again, this Court has held that "the plaintiff is absolute master of what jurisdiction he will appeal to," *Healy v. Sea Gull Specialty Co.*, 237 U.S. 479, 480 (1915) (Holmes, J.), such that "[t]he party who brings a suit is master to decide what law he will rely upon and therefore does determine whether he will bring a suit arising under the patent or other law of the United States by his declaration or bill. *That question cannot depend upon the answer.* . . ." *The Fair v. Kohler Die & Specialty Co.*, 228 U.S. 22, 25 (1913) (Holmes, J.) (emphasis added).[12] When a plaintiff chooses not to invoke an available basis of federal court jurisdiction, the plaintiff's choice is controlling: "Jurisdiction may not be sustained on a theory that the plaintiff has not advanced." *Merrell Dow Pharm. Inc. v. Thompson*, 478 U.S. 804, 809 n.6 (1986).[13]

"Thus, a case raising a federal patent-law defense does not, for that reason alone, 'arise under' patent law."

12. *See Caterpillar Inc. v. Williams*, 482 U.S. 386, 392 (1987) ("the rule makes the plaintiff the master of the claim"); *Pan American Petroleum Corp. v. Superior Court*, 366 U.S. 656, 662 (1961) ("questions of exclusive federal jurisdiction . . . depend on the particular claims a suitor brings in a state court – how he casts his action"); *Great Northern Ry. Co. v. Alexander*, 246 U.S. 276, 281-82 (1918) (jurisdictional status of civil action cannot be affected by "subsequent pleadings by the defendant").

13. The Petitioner's complaint in this case does not invoke jurisdiction under 28 U.S.C. § 1338(a) (L2), although it could have done so.

Christianson, 486 U.S. at 809. This principle has been applied in a wide spectrum of contexts. *See, e.g.*, *Rivet v. Regions Bank*, 522 U.S. 470, 475 (1998); *Caterpillar Inc. v. Williams*, 482 U.S. 386, 399 (1987); *Pan American Petroleum Corp. v. Superior Court*, 366 U.S. 656, 663 (1961); *Louisville & Nashville R. Co. v. Mottley*, 211 U.S. 149, 152 (1908). The cases are, likewise, legion that hold a counterclaim in a defendant's answer[14] is irrelevant to whether a civil action is one "arising under" federal law for jurisdictional purposes.[15]

14. FED. R. CIV. P. 3 provides that "[a] civil action is commenced by filing a complaint with the court." FED. R. CIV. P. 13 provides that a "counterclaim" shall or may be "state[d]" as part of a "pleading" permitted by the rules, including an answer. Thus, under the structure of the Federal Rules of Civil Procedure, a "counterclaim" by definition forms part of a "pleading" in an already-commenced "civil action."

15. *E.g.*, *Metro Ford Truck Sales, Inc. v. Ford Motor Co.*, 145 F.3d 320, 326-27 (5th Cir. 1998); *Texas v. Walker*, 142 F.3d 813, 816 n.2 (5th Cir. 1998); *Shannon v. Shannon*, 965 F.2d 542, 545-46 (7th Cir. 1992); *Saturday Evening Post Co. v. Rumbleseat Press, Inc.*, 816 F.2d 1191, 1195 (7th Cir. 1987); *In re Adams*, 809 F.2d 1187, 1188 n.1 (5th Cir. 1987); *FDIC v. Elefant*, 790 F.2d 661, 667 (7th Cir. 1986); *Cook v. Georgetown Steel Corp.*, 770 F.2d 1272, 1275 (4th Cir. 1985); *Takeda v. Northwestern Mut. Life Ins. Co.*, 765 F.2d 815, 822 (9th Cir. 1985); *Marshall v. Gibson's Prods., Inc.*, 584 F.2d 784, 787 (5th Cir. 1978); *Rath Packing Co. v. Becker*, 530 F.2d 1295, 1303 (9th Cir. 1975), *aff'd sub nom. Jones v. Rath Packing Co.*, 430 U.S. 519 (1977); *Duckson, Carlson, Bassinger, LLC v. Lake Bank, N.A.*, 139 F. Supp. 2d 1117, 1118 (D. Minn. 2001); *Bell Atlantic Mobile, Inc. v. Zoning Board of Butler Township*, 138 F. Supp. 2d 668, 676 (W.D. Pa. 2001); *Archer v. Arms Tech., Inc.*, 72 F. Supp. 2d 784, 787 (E.D. Mich. 1999); *Wallace v. Weidenbeck*, 985 F. Supp. 288, 291 (N.D.N.Y. 1998); *Civil City of South Bend v. Consolidated Rail Corp.*, 880 F. Supp. 595, 598-99 (N.D. Ind. 1995); *Price v. Alfa*
(Cont'd)

As a practical litigation matter, a counterclaim is part of a defendant's defense to a plaintiff's suit,[16] and the federal courts have consistently held that "defenses" and "counterclaims" are both and equally extraneous to the existence of "arising under" jurisdiction (*see* note 15 *supra*). "There has never been a suggestion that a defendant could, by asserting an artful counterclaim, render a case removable in violation of the well-pleaded complaint rule." *Texas v. Walker*, 142 F.3d 813, 816 n.2 (5th Cir. 1998).

In *Caterpillar Inc. v. Williams*, 482 U.S. 386 (1987), this Court reiterated that the "paramount policies embodied in the well-pleaded complaint rule" include the principles that (1) "the plaintiff is the master of the complaint" and (2) "a federal question must appear on the face of the complaint." *Id.* at 398-99. These "bright line" principles are basic to federal court plaintiffs' long-established rights to decide both (1) "what jurisdiction [they] will appeal to",

(Cont'd)
Mut. Ins. Co. 877 F. Supp. 597, 600 (M.D. Ala. 1995); *Reed v. Cohen*, 876 F. Supp. 25, 28 (E.D.N.Y. 1995); *Stone v. Williams*, 792 F. Supp. 749, 753 (M.D. Ala. 1992); *Commercial Sales Network v. Sadler-Cisar, Inc.*, 755 F. Supp. 756, 759 (N.D. Ohio 1991); *Boone v. DuBose*, 718 F. Supp. 479, 486 (M.D. La. 1988); *Ident Corp. of America v. Wendt*, 638 F. Supp. 116, 117 (E.D. Mo. 1987); *Video Connection of America, Inc. v. Priority Concepts, Inc.*, 625 F. Supp. 1549, 1551 n.4 (S.D.N.Y. 1986). In addition to the reported decisions cited above and in the text, numerous unreported decisions (available in on-line search services) are to the same effect, holding that a defendant's counterclaim cannot render a civil action one "arising under" federal law.

16. "Part of the philosophy of every successful trial lawyer is that 'the best defense is a good offense.'" *McDonald v. Credithrift of America, Inc.*, 661 F.2d 69, 70 (5th Cir. 1981) (Clark, J. dissenting).

Healy, 237 U.S. at 480; and (2) "what law [they] will rely upon", *The Fair*, 228 U.S. at 28. If a defendant, by serving an answer containing a counterclaim, could defeat a plaintiff's choice of law or forum, then, in the words of this Court, "the plaintiff would be master of nothing." *Caterpillar*, 482 U.S. at 399.[17] It would also destroy the clarity and ease of administration of long-standing jurisdictional principles.

The controlling significance of a plaintiff's well-pleaded complaint as the determinant of federal court jurisdiction, both original and appellate, is also reflected in the principle that a case "cannot be converted into a removable one by evidence of the defendant or by an order of the court upon any issue tried upon the merits, but that such conversion can only be accomplished by the voluntary amendment of his pleadings by the plaintiff. . . ." *Great Northern Ry. Co. v. Alexander*, 246 U.S. 276, 281 (1918), *cited in Caterpillar*, 482 U.S. at 392 n.7. In *Great Northern*, this Court held that a state court retained jurisdiction to decide a case that was non-removable based on the allegations of the plaintiff's well-pleaded complaint, even though the proofs at trial later established that a basis for federal court jurisdiction had existed all along:

> [T]he plaintiff may by the allegations of his complaint determine the status with respect to removability of a case . . . when it is commenced,

17. Petitioner's decision to commence this case in the District Court for the District of Kansas was a deliberate choice, intended to invoke both the jurisdiction and the law of the Court of Appeals for the Tenth Circuit, including the final judgment of the Tenth Circuit in *Vornado I*. It may be noted that the Respondent is headquartered in Wichita, Kansas, which was also the venue where it commenced and lost *Vornado I*.

> and . . . this power to determine the removability of his case continues with the plaintiff throughout the litigation, so that whether such a case non-removable when commenced shall afterwards become removable depends not upon what the defendant may allege or prove or what the court may, after hearing upon the merits, *in vitum*, order, but solely upon the form which the plaintiff by his voluntary action shall give to the pleadings in the case as it progresses towards a conclusion.

246 U.S. at 282.

II. THE FEDERAL CIRCUIT ERRED IN DETERMINING THAT THIS CIVIL ACTION IS A "PATENT CASE" FOR PURPOSES OF 28 U.S.C. §§ 1338(a) AND 1295(a)(1).

It is undisputed that the Petitioner's complaint in this action (L1-86) does not plead any claim that "arises under" federal patent law within the meaning of 28 U.S.C. § 1338(a), as construed by this Court in *Christianson*. Yet the Federal Circuit, over Petitioner's objection (L216, L228-34), took jurisdiction under 28 U.S.C. § 1295(a)(1) and summarily vacated a final judgment rendered in Petitioner's favor on a claim arising under the Lanham Act. The Federal Circuit apparently accepted, without comment (JA33-34), the Respondent's argument (L257-63) that its answer and counterclaim had ousted the Tenth Circuit of jurisdiction over Petitioner's suit.

The decision of the Federal Circuit in this case is antithetical to the "well-pleaded complaint rule" as articulated in *Christianson* and innumerable other decisions

of this Court. If the Federal Circuit's decision is allowed to stand, plaintiffs who commence civil actions in federal court will be anything but the "absolute master of what jurisdiction [they] will appeal to." *Healy*, 237 U.S. at 480, *quoted in Merrell Dow*, 478 U.S. at 809 n.6 (1986). In reality, as this case demonstrates, the Federal Circuit rule is that defendants purportedly control — and can unilaterally change — both the applicable law[18] and the appellate court that will determine any and every type of civil case — antitrust, contract, copyright, trademark, trade secret, defamation, false advertising, business tort, diversity — in which a defendant's answer might include a patent counterclaim of any nature, and no matter how marginal it might be.

In *DSC Communications Corp. v. Pulse Communications, Inc.*, 170 F.3d 1354 (Fed. Cir.), *cert. denied*, 528 U.S. 923 (1999), the Federal Circuit held that a

18. As noted above, the Federal Circuit has recently overruled a number of its own decisions and held that it would start applying "its own" law in determining various types of non-patent claims over which it has only pendent or non-exclusive jurisdiction. The Federal Circuit's announcement in *Midwest*, *supra*, that it no longer considered itself bound by regional Circuit law on product configuration "trade dress" questions, was admittedly what prompted this Respondent to attempt to mount a collateral attack on the final judgment in *Vornado I*.

The Federal Circuit's recently changed approach to choice-of-law unquestionably – if not avowedly – gives rise to "forum shopping opportunities between the Federal Circuit and the regional courts of appeals on [non-patent] claims." *Atari*, 747 F.2d at 1437 (quoting S. REP. No. 97-275 at 19-20 (1981)). *Cf. Van Dusen v. Barrack*, 376 U.S. 612, 639 (1964) (when venue is transferred under 28 U.S.C. § 1404(a), transferee court must apply law that would have been applied if there had been no transfer of venue).

defendant's assertion of a permissive counterclaim for alleged patent infringement was sufficient to bring a case within the scope of the Federal Circuit's exclusive jurisdiction under 28 U.S.C. § 1295(a)(1), regardless of whether a plaintiff's well-pleaded complaint alleges any claim "arising under" federal patent law. Thus, according to the Federal Circuit, a defendant can readily evade regional Circuit jurisdiction by asserting any sort of patent counterclaim against a plaintiff, including one that does not arise out of the same transactions or events that form the basis of the plaintiff's suit.

The Federal Circuit's interpretation of 28 U.S.C. § 1295(a)(1) purports to divest regional Circuits of jurisdiction to determine the merits of broad categories of civil actions commenced under federal or state laws having nothing to do with patents, their interpretation, infringement, or validity. Although "[i]t is possible to conceive of a rational jurisdictional system in which the answer as well as the complaint would be consulted before a determination is made whether the case 'arose under' federal law," such an approach to "arising under" jurisdiction has simply never been adopted by Congress or this Court, *Franchise Tax Board v. Construction Laborers Vacation Trust*, 463 U.S. 1, 10 n.9 (1983), and was not adopted by Congress when it enacted 28 U.S.C. § 1295(a)(1). *See Christianson*, 486 U.S. at 813-14.

The Federal Circuit's aberrant interpretation of the "well-pleaded complaint rule" traces its decision in *Aerojet-General Corp. v. Machine Tool Works, Oerlikon-Buehrle Ltd.*, 895 F.2d 736 (Fed. Cir. 1990) (*en banc*). In *Aerojet*, the Federal Circuit took up the question whether 28 U.S.C. § 1295(a)(1) extended to a case in which "the complaint was not based on § 1338(a) but there is a counterclaim over which

the district court would have § 1338(a) jurisdiction if the counterclaim had been a complaint." *Id.* at 738-39. In answering this question in the affirmative, the Federal Circuit held that the "well-pleaded complaint rule" was "merely the name of the rule, not a statement of a principle of law," *id.* at 743, with the purported result that a defendant's answer containing a counterclaim could transform the basis of a District Court's jurisdiction and cut off regional Circuit jurisdiction over a plaintiff's suit:

> It would seem at best incongruous to hold that we have appellate jurisdiction when a well-pleaded patent infringement claim is the basis of a pleading labeled "complaint" but not when the identical well-pleaded claim is the basis of pleading labeled "counterclaim".

Id. at 742.

But contrary to the Federal Circuit's view, there is nothing whatever "incongruous" about the "plaintiff's traditional prerogative of forum selection — the well-established principle that the plaintiff is the master of the complaint." 14B C. WRIGHT, A. MILLER & E. COOPER, FEDERAL PRACTICE AND PROCEDURE § 3722, at 453 (3d ed. 1998) (citing authorities).[19] In *Christianson*, this Court

19. As noted above, the "well-pleaded complaint rule" often results in state courts hearing federal law counterclaims notwithstanding the federal courts' presumed superior familiarity with federal law questions. In all such cases involving a jurisdictionally sufficient counterclaim, it could be said, as the Federal Circuit did in *Aerojet*, that a defendant's counterclaim, "had it been filed as a complaint, would fully comply with the well-pleaded complaint rule." (Cont'd)

expressly held the Federal Circuit's jurisdiction excluded cases "where the well-pleaded *complaint* does not depend on patent law." *Christianson*, 486 U.S. at 814 (emphasis added). The Federal Circuit has simply flouted *Christianson's* clear holding that the "well-pleaded complaint rule" applies with full force to 28 U.S.C. §§ 1338(a) and 1295(a)(1), and entitles plaintiffs to regional Circuit review when, as in *Christianson* and in the present case, a plaintiff's well-pleaded complaint does not state any claim "arising under" federal patent law.

Aside from a suggestion that it would be "incongruous" for regional Circuits to hear appeals in antitrust, copyright, trademark, trade secret, or other non-patent cases in which a defendant's answer included a patent law counterclaim, the Federal Circuit justified its decision to take exclusive jurisdiction over all such cases on the ground that, in its view, "the basic purpose" of the "well-pleaded complaint rule" was merely to avoid "federal-state conflicts," *Aerojet*, 895 F.2d at 743-44 (quoting *Franchise Tax*, 463 U.S. at 10). From this premise, the Federal Circuit reasoned:

> No such conflicts are possible here, where we deal only with the direction of an appeal in a case already properly in the federal court system. Similarly, the plaintiff's right to choose a federal *trial forum* has already been fully exercised.

Id. at 744 (emphasis added).

(Cont'd)
895 F.2d at 742. But outside the Federal Circuit, the federal courts have consistently held that a defendant's counterclaim does not change the status of a civil action as being one "arising under," or not "arising under," federal law for jurisdictional purposes. *Cf. Shamrock Oil Corp. v. Sheets*, 313 U.S. 100, 104 (1941) (counterclaim falling within federal court original jurisdiction did not entitle plaintiff to remove case to federal court).

The above-quoted analysis was and is fundamentally at odds with *Christianson*. As noted above, this Court in *Christianson* specifically considered, and rejected, a suggestion that "our 'arising under' jurisprudence might . . . be inapposite" to the scope of the Federal Circuit's jurisdiction under 28 U.S.C. §§ 1338(a) and 1295(a)(1), for in the latter context, "our interpretation . . . will merely determine which of two federal appellate courts will hear the appeal." *Christianson*, 486 U.S. at 808 n.2. The plaintiffs in *Christianson* were held entitled to regional Circuit review of a judgment finding liability and awarding injunctive and damages relief under federal antitrust and state tort law, notwithstanding that the District Court in *Christianson* had invalidated nine (9) issued patents and had construed paragraph (2) of 35 U.S.C. § 112 as applied to the defendant's challenged actions. *Id.* at 807-14, 819. There was no "federal-state conflict" in *Christianson*, but the "well-pleaded complaint rule" was nevertheless held fully applicable and sufficient cause for vacating a judgment of the Federal Circuit.

Equally contrary to this Court's precedents was the Federal Circuit's suggestion that the "well-pleaded complaint rule" confers on plaintiffs merely a right to choose a "federal *trial* forum." *Aerojet*, 895 F.2d at 744 (emphasis added). The Federal Circuit did not cite, let alone distinguish, this Court's precedents holding that a plaintiff who files suit in federal court is "master" to decide both (1) "what jurisdiction he will appeal to"[20] and (2) "what law he will rely upon."[21]

20. *Merrell Dow*, 478 U.S. at 809 n.6 (quoting *Healy*, 237 U.S. at 480).

21. *Merrell Dow*, 478 U.S. at 809 n.6 (quoting *The Fair*, 228 U.S. at 25).

Far from being "fully exercised," *id.*, these long-established rights of federal court plaintiffs are effectively destroyed by the jurisdictional rule applied by the Federal Circuit in this case.

In further support of its conclusion that the "well-pleaded complaint rule" should be construed, instead, as a "well-pleaded complaint or well-pleaded answer and counterclaim rule," the Federal Circuit cited "Congress' goal of enhancing predictability and certainty of the patent laws." *Id.* at 745. But as the Federal Circuit has itself observed on occasion: "Congress was not concerned that an occasional patent law decision of a regional circuit court, or of a state court, would defeat its goal of increased uniformity in the national law of patents." *Speedco Inc. v. Estes*, 853 F.2d 909, 914 (Fed. Cir. 1988) (quoting *Atari, Inc. v. JS&A Group*, 747 F.2d 1422, 1432 (Fed. Cir. 1984) (*en banc*)).

On the contrary, by circumscribing the Federal Circuit's appellate jurisdiction to cases "arising under" federal patent law, as defined by the "well-pleaded complaint rule," Congress expressly provided that the goal of "uniformity" in patent law jurisprudence would have to accommodate, and be balanced against, traditional principles defining litigants' rights in federal court. A marginal and theoretical threat to the "uniformity" of federal patent jurisprudence surely is not so weighty an objective as to warrant jettisoning of the "well-pleaded complaint rule" and thereby potentially diverting to the Federal Circuit every conceivable type of case in which a defendant might assert a patent law counterclaim, in derogation of the appellate jurisdiction of the regional Circuits and the uniformity of jurisprudence outside the Federal Circuit.

The *Aerojet* decision also cited and relied on authorities holding that, when a defendant's answer includes a counterclaim, jurisdiction to decide the counterclaim can be "retained" notwithstanding that a plaintiff's complaint may be jurisdictionally defective or voluntarily dismissed. 895 F.2d at 742-43. But those authorities are patently inapposite to whether a defendant's answer or counterclaim operates to *change* the jurisdictional basis of a civil action commenced, as the present action was, by the filing of a *well-pleaded* complaint.[22] Under the numerous authorities cited above (*see* note 15 *supra*), the answer to the latter question is clearly "no."

The decision below well illustrates how the Federal Circuit's interpretation — and *de facto* rejection — of the "well-pleaded complaint rule" can lead not only to unfair and unpredictable results, but to enormous waste of judicial and party resources. The District Court found, in this case, that as of March 2000, there was a "clear conflict" between the law of the Federal Circuit and the law of the Tenth Circuit, as reflected in their respective decisions in the *Midwest* and *Vornado I* cases, 93 F. Supp. 2d at 1143 (JA95), but that this conflict did not warrant "a refusal to apply the law of collateral estoppel in this action," in part because "[t]he Tenth Circuit law upon which that [*Vornado I*] judgment was based has not changed." *Id.*

22. When an answer and counterclaim has been pleaded to a complaint that later is dismissed voluntarily or for lack of jurisdiction, it is an entirely mechanical and ministerial exercise whether a District Court takes up the counterclaim as pleaded or requires that the party originally named as a defendant file a complaint alleging the substance of the existing counterclaim. Either way, the original plaintiff's choice of law or forum is not being disturbed, and the defendant's cause of action is treated the same as it would have been treated if the dismissed complaint had not been filed.

In *TrafFix*, this Court expressly resolved the "conflict" that had existed between the law of the Tenth and Federal Circuits, 121 S. Ct. at 1259, and did so by (1) rejecting the standard of "functionality" articulated by the Federal Circuit in *Midwest*, and (2) embracing a standard of "functionality" that was fully consistent with both the holding and the reasoning of the Tenth Circuit in *Vornado I*. *Id.* at 1261-62.

The *TrafFix* decision eliminated any plausible argument that the law of the Tenth Circuit had "changed" materially since the judgment in *Vornado I*; yet Petitioner, the prevailing plaintiff in the District Court, nevertheless had its judgment of non-infringement summarily stripped away by a two-page Order of the Federal Circuit that did not address, at all, any of the jurisdictional or merits arguments made by either party (JA33-34). Instead, the Federal Circuit summarily vacated the summary judgment that had been awarded to Petitioner and directed the District Court to consider whether, in view of *TrafFix*, the law of the Tenth Circuit might have changed in such a way as to permit a collateral attack on a prior judgment of the Tenth Circuit in a case arising under federal trademark law.

The Federal Circuit's decision apparently contemplates that, after the District Court attempts to divine how the Tenth Circuit would regard the state of its own law in view of the *TrafFix* decision, the case would return to the Federal Circuit for additional divination efforts at determining the law of the Tenth Circuit. The one court that will never, in the Federal Circuit's view, have the opportunity to determine the legal effect of the judgment in *Vornado I*, is the court that issued it: the Tenth Circuit.

It is not difficult to see how the interests of justice, judicial economy and efficiency, and stability of prior final judgments, have all been sacrificed in this case as a consequence of the Federal Circuit's aberrant interpretation of 28 U.S.C. §§ 1295(a)(1) and 1338(a) and its refusal to acknowledge, let alone faithfully apply, the "well-pleaded complaint rule" as substantially limiting the scope of the Federal Circuit's appellate jurisdiction as directed by this Court in *Christianson*.

CONCLUSION

For the reasons set forth above, the judgment of the Court of Appeals for the Federal Circuit should be reversed, and the cause remanded to the Tenth Circuit for further proceedings. Alternatively, the Court should affirm the District Court's award of summary judgment to Petitioner.

Respectfully submitted,

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No. 01-408

IN THE

Supreme Court of the United States

THE HOLMES GROUP, INC.,

Petitioner,

--- v. ---

VORNADO AIR CIRCULATION SYSTEMS, INC.,

Respondent.

On Writ Of Certiorari
To The United States Court Of Appeals
For The Federal Circuit

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QUESTIONS PRESENTED

The questions presented are:

1. Does 28 U.S.C. § 1295(a)(1) divest regional Circuits of jurisdiction to decide appeals of final decisions of district courts in cases wherein the well-pleaded complaint of the prevailing plaintiff does not allege any claim arising under federal patent law?

2. Did the Court of Appeals for the Federal Circuit err in concluding that this action "arises under" federal patent law for purposes of 28 U.S.C. §§ 1295(a)(1) and 1338(a)?

STATEMENT PURSUANT TO RULE 29.6

Respondent Vornado Air Circulation Systems, Inc. ("Vornado") has no parent companies, subsidiaries, or affiliates that have issued shares to the public.

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INTRODUCTION

This is a case about an effort to skirt the unifying jurisdictional reach of the United States Court of Appeals for the Federal Circuit. Faced with respondent's patent and trade dress complaint pending before the United States International Trade Commission, petitioner filed a declaratory judgment action in federal district court solely on the trade dress claim. Under the Federal Rules of Civil Procedure, respondent was obliged to assert its related patent claim as a compulsory counterclaim in that second proceeding. Applying its long-established *Aerojet* rule, the Federal Circuit recognized that it had jurisdiction over this case. *See Aerojet-General Corp. v. Machine Tool Works, Oerlikon-Buehrle Ltd.*, 895 F.2d 736 (Fed. Cir. 1990). In doing so, the court acted consistently with both the letter of the relevant jurisdictional statutes and with Congress' salutary intent to bring about greater uniformity in the body of patent law and curtail the then-growing sport of patent law forum-shopping.

Petitioner now wants to resurrect that long-discredited practice and, in the process, undo over a decade of settled procedure in the Federal Circuit. Nothing has changed since the *en banc* Federal Circuit, speaking unanimously through the voice of then-Chief Judge Howard Markey, thoughtfully examined this Court's decision in *Christianson v. Colt Indus. Operating Corp.*, 486 U.S. 800 (1988). In his *Aerojet* opinion, Chief Judge Markey obediently examined this Court's opinion, delivered by Justice Brennan, and carefully distinguished from the *Christianson* setting the circumstance where, as here, the jurisdictional issue arises in connection with a compulsory counterclaim. That marked difference in contexts, particularly in the present setting of a declaratory judgment action, makes all the difference in the world.

Not only is the *Aerojet* rule well-settled in Federal Circuit practice and administration, the *en banc* court

emphasized that its pre-*Christianson* analytic approach dovetailed with this Court's eventual decision in *Christianson* itself. This consistent interpretation of the relevant jurisdictional provisions was first set forth by the Federal Circuit in 1986, in *In re Innotron Diagnostics*, 800 F.2d 1077 (Fed. Cir. 1986). The *Aerojet* rule was also followed, for example, by the First Circuit in *Xeta, Inc. v. Atex, Inc.*, 825 F.2d 604 (1st Cir. 1987). The correctness of the Federal Circuit's approach in the *Christianson* context, where counterclaims were not at issue, was ratified by this Court in *Christianson* itself. In short, not only did this Court not disapprove the Federal Circuit's already-settled interpretation, it affirmed the Federal Circuit's approach as to jurisdiction in *Christianson* itself. Upon careful analysis, it will thus be seen that petitioner has sown latter-day seeds of confusion over Federal Circuit procedures in the service of its grand litigation strategy. But the disruption that would attend the acceptance of petitioner's vast expansion of *Christianson's* limited rule tugs strongly at Congress' determination to bring greater coherence and consistency to the body of patent law through the unifying substantive reach of the Federal Circuit's mandate.

Aerojet, in short, stands fully consistent with *Christianson* and with the rules governing the orderly litigation of patent claims in federal courts. It is much too late in the day to disrupt the *Aerojet* framework, grounded as it is in both the text of the relevant jurisdictional provisions and in the policy animating Congress' creation of the Federal Circuit.

OPINIONS BELOW

The opinion of the U.S. Court of Appeals for the Federal Circuit is unreported and is found in the Joint Appendix ("JA") at JA33-34. The opinion of the United States District Court for the District of Kansas is reported at 93 F.Supp.2d 1140 and is found at JA88-98. The District Court's final judgment appears at JA99-100.

STATEMENT OF THE CASE

Respondent Vornado manufactures and sells distinctive household fans, to which it obtained a patent, U.S. Patent No. Re. 34,551 ("the '551 patent"). These unique fans include a front grill design that incorporates a series of spiral (arcuate) vanes. Petitioner Holmes is a competitor of respondent in the household fan business, and imports and distributes fans covered by Vornado's '551 patent and trade dress.

Vornado discovered that petitioner Holmes had been importing from China and distributing fans having the aforementioned spiral vanes. On November 26, 1999, Vornado filed a complaint with the United States International Trade Commission ("ITC") in an attempt to stop the illegal importation of petitioner's fans.[1] The ITC complaint is found at L61-86. Vornado's complaint alleged both patent and trade dress infringement and requested that the ITC initiate an investigation of Holmes's importation activities with respect to Holmes's fans and other products. To support its allegation of patent infringement, Vornado submitted a patent claim chart to the ITC showing Holmes's infringement of the '551 patent on an element-by-element basis. *See* Claim Chart at L144-147.

The ITC determined that Vornado had asserted a viable, non-frivolous claim for, among other things, patent infringement. Accordingly, the ITC instituted an investigation on January 21, 2000. The Federal Circuit had jurisdiction over any appeal from the ITC decision.[2]

Two weeks after Vornado filed the ITC action, petitioner Holmes commenced a district court action against Vornado in the U.S. District Court for the District of Kansas, seeking only a declaration that Holmes's sales of its products

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[1] The complaint was filed pursuant to § 337 of the Tariff Act of 1930, as amended, 19 U.S.C. § 1337.

[2] 28 U.S.C. § 1295(a)(6).

did not infringe Vornado's asserted trade dress in its spiral grill. *See* Holmes's District Court complaint at L1-17. Even though Holmes was acutely aware that Vornado had just asserted a non-frivolous claim of patent infringement against Holmes at the ITC, Holmes did not ask for a declaration regarding Vornado's '551 patent.[3] *See* Holmes's District Court complaint at L7-8.

Vornado answered Holmes's district court complaint, and asserted its compulsory patent counterclaim as a counterplaintiff, raising the same allegations of patent and trade dress infringement that Vornado raised in its earlier ITC complaint. *See* Vornado's Counterclaim at L98-102. Vornado stated in its counterclaim that the district court had jurisdiction under 28 U.S.C. § 1338(a) "since the matter in controversy arises under an act of Congress relating to patents." L98.

It is noteworthy that petitioner chose the Kansas district court to file its complaint because of its belief that the Tenth Circuit's decision in *Vornado Air Circulation Sys., Inc. v. Duracraft Corp.*, 58 F.3d 1498 (10th Cir. 1995), *cert. denied*, 516 U.S. 1067 (1996) ("*Vornado I*"), collaterally estopped Vornado from asserting a trade dress claim against Holmes. In *Vornado I*, the Tenth Circuit held that a product configuration would not be accorded protection under the Lanham Act when the configuration is a "described, significant inventive component" of an issued utility patent. *Id.* at 1500. Petitioner's complaint, however, revealed that it understood that Vornado would assert a compulsory counterclaim for patent infringement in response to

[3] It is difficult to reconcile how petitioner was motivated to file a declaratory judgment action regarding only trade dress infringement. Petitioner stated it was "reasonably apprehensive" that respondent would assert trade dress claims against it, yet petitioner was apparently not apprehensive that respondent would assert patent infringement claims. At the time petitioner filed its district court complaint, it knew of the pending patent infringement claims against it at the ITC. L8.

petitioner's decision to intentionally omit the patent claim. Thus, Holmes's race to the courthouse to file a complaint devoid of a patent infringement claim was designed to circumvent the jurisdiction of the Federal Circuit. Indeed, had Vornado been first and filed its action for patent and trade dress infringement against Holmes, any appeal resulting therefrom would have unquestionably been heard before the Federal Circuit.

Despite the Federal Circuit's ruling in *Midwest Indus., Inc. v. Karavan Trailers, Inc.*, 175 F.3d 1356 (Fed. Cir. 1999), *cert. denied*, 528 U.S. 1019 (1999) that the Federal Circuit would be applying its own law when determining issues of protectable trade dress, and thereby calling into question the Tenth Circuit's holding in *Vornado I*, the Kansas district court applied the principles of collateral estoppel to grant summary judgment in favor of Holmes on the issue of trade dress infringement. The Kansas court, however, acknowledged that an intervening change in the law can be a sufficient basis for declining to apply collateral estoppel. JA93, *The Holmes Group, Inc. v. Vornado Air Circulation Sys., Inc.*, 93 F.Supp.2d 1140 (D. Kan. 2000), reprinted at JA88-98. The district court also stated that the Federal Circuit trade dress law was "now clearly at odds with the Tenth Circuit law underlying the judgment in *Vornado I*." JA95. The district court recognized that "the Federal Circuit has exclusive jurisdiction over an appeal from a final judgment of a district court if the district court's jurisdiction is based in whole or in part on a patent claim," and stated that, based on Vornado's counterclaim alleging patent infringement, "it is possible (although not entirely certain) that any appeal of this court's judgment will be to the Federal Circuit." JA94.

Vornado appealed the district court's partial final judgment to the United States Court of Appeals for the Federal Circuit (Appeal No. 00-1286). Lacking the resources to simultaneously litigate at the ITC, in Massachusetts, and

in Kansas,[4] but aware of the ITC's obligation under 19 CFR § 210.51(a) to resolve cases quickly and that it lacked a procedure permitting ITC cases to be stayed, Vornado entered into an agreement with Holmes. Pursuant to that agreement, the Kansas and Massachusetts suits were stayed pending a successful appeal by respondent. This stay, however, could not be effected in the ITC and thus, as part of this agreement, Vornado withdrew the ITC case with the understanding that it would seek reinstitution of the investigation, without objection from petitioner, if the Federal Circuit ruled in Vornado's favor.[5]

On June 5, 2001, the Federal Circuit vacated the judgment of the district court, and remanded the case for proceedings in light of *TrafFix Devices, Inc. v. Marketing Displays, Inc.*, 532 U.S. 23, 58 U.S.P.Q.2d 1001, (2001).[6] The Federal Circuit Order is found at JA33-34. Holmes then petitioned this Court for a writ of certiorari. This Court granted the petition on November 8, 2001.

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[4] Petitioner also filed suit against respondent in the Massachusetts district court claiming tortious interference with business practices.

[5] Contrary to Holmes's assertion that the "counterclaim was effectively withdrawn," Vornado's counterclaim against Holmes for infringement of the '551 patent was stayed, but is still pending in the district court. Petitioner's Br. at 10, n.8, JA102.

[6] Petitioner states that *TrafFix* resolved a conflict between the Federal Circuit and the Tenth Circuit in the area of trade dress law. Petitioner's Br. at 6, n.5. However, this assertion paints a misleading picture. The conflict was actually between the various courts of appeals, where the Fifth, Seventh, and Federal Circuit courts applied one standard, and the Tenth Circuit (in *Vornado I*) applied a completely different standard. *TrafFix*, 532 U.S. 23, 58 U.S.P.Q.2d at 1004. The Court did not, as petitioner infers, adopt the standard set forth by the Tenth Circuit in *Vornado I*. *Id.* at 1007.

SUMMARY OF THE ARGUMENT

Based on its carefully-reasoned *en banc* decision in *Aerojet-General Corp. v. Machine Tool Works, Oerlikon-Buehrle Ltd.*, 895 F.2d 736 (Fed. Cir. 1990), the Federal Circuit correctly held that it had jurisdiction over this patent law case. Read together, 28 U.S.C. §§ 1295 and 1338 confer appellate jurisdiction upon the Federal Circuit over "any civil action arising" "in whole or in part" "under any Act of Congress relating to patents." As a matter of plain language, the present action arose in part under patent law because one of the claims in this case – the compulsory counterclaim – is a patent law claim. While petitioner stresses that a "civil action" is "*commenced* by filing a complaint," FED. R. CIV. P. 3, the action continues with the filing of counterclaims. Thus, this Court explained in *Cardinal Chemical Co. v. Morton Int'l*, 508 U.S. 83 (1993), that a defendant who raised a counterclaim arising under the patent laws had "properly invoked the *original jurisdiction* of the District Court" under § 1338. *Id.* at 98 (emphasis added).

This conclusion is further compelled by the posture of this declaratory judgment action. "Federal courts have regularly taken original jurisdiction over declaratory judgment suits in which, if the declaratory judgment defendant brought a coercive action to enforce its rights, that suit would necessarily present a federal question." *Franchise Tax Bd. v. Construction Laborers Vacation Trust*, 463 U.S. 1, 19 (1983). Examining a declaratory defendant's *compulsory* counterclaim for allegations of patent infringement is particularly logical, since that claim is by definition part of the same "transaction or occurrence" underlying the plaintiff's claim. FED. R. CIV. P. 13(a). Any other conclusion would permit patent infringers to evade Federal Circuit jurisdiction by filing preemptive declaratory judgment actions raising related claims but omitting the patent law claims, knowing full well that the patent holder would then

have to plead its infringement claim as a compulsory counterclaim.

Even outside the present context, this Court has *never* held that counterclaims cannot provide the basis for "arising under" jurisdiction. Instead, this Court's precedents, including *Christianson v. Colt Indus. Operating Corp.*, 486 U.S. 800 (1988), hold that *defenses* – rather than *claims* – cannot provide the basis for jurisdiction. In contrast, the First Circuit as well as the Federal Circuit have long held that in the unique context of Federal Circuit jurisdiction, counterclaims must be considered to effectuate Congress' intent to achieve uniformity in patent law and eliminate forum shopping by declaratory judgment plaintiffs.

In *Christianson*, this Court likewise recognized that "arising under" principles must be "appropriately adapted to § 1338(a)." *Id.* at 809. This point is important because petitioner relies heavily on cases involving federal trial court jurisdiction at the outset of a case. Those cases necessarily focus on the content of the complaint alone (i) for the practical reason that jurisdiction must be decided at the outset of the case; (ii) to avoid federal-state conflicts since *state* courts would otherwise have jurisdiction; and (iii) in deference to the plaintiff's choice of forum. In this different context, none of these considerations applies. In contrast, the question is which federal appellate court will decide the case after it has been tried, *and Congress has provided for exclusive federal court jurisdiction for the precise purpose of preventing alleged infringers from forum shopping by filing declaratory judgment actions in a circuit of their choosing.* Thus, petitioner's reliance on his supposed right to hand-select the appellate court that would decide patent law claims flies in the face of Congress' intent.

As such, there can be no question that this case arises under federal patent law for purposes of 28 U.S.C. §§ 1295 and 1338. Respondent's answer does not merely assert a patent law defense. To the contrary, respondent's answer pleads a nonfrivolous, compulsory counterclaim for patent

infringement. That claim was pending before the International Trade Commission when petitioner filed its district court complaint, and the ITC has since determined that the claim is viable. As a result, it is petitioner, not respondent, who would manipulate jurisdictional rules by bringing a declaratory judgment action that conveniently omits an integral patent law claim. Accordingly, the Federal Circuit's long-established jurisdictional principles, as set forth by then-Chief Judge Markey for a unanimous *en banc* court, should be sustained.

ARGUMENT

I. THE FEDERAL CIRCUIT HAS EXCLUSIVE APPELLATE JURISDICTION OVER SUITS IN WHICH ANY PLEADING – BE IT A COMPLAINT OR COUNTERCLAIM – ALLEGES A CLAIM ARISING UNDER FEDERAL PATENT LAW.

A. 28 U.S.C. § 1295(a)(1) Grants the Federal Circuit Exclusive Jurisdiction Over All Suits Involving Patent Law Claims, Whether Those Claims Are Set Forth in the Complaint or Pleaded as Counterclaims.

In 1982, Congress created the Court of Appeals for the Federal Circuit and vested in it exclusive jurisdiction over appeals from the federal district courts when "the jurisdiction of that [district] court was based, *in whole or in part*, on Section 1338 of this title." 28 U.S.C. § 1295(a)(1)(emphasis added). Section 1338 confers original jurisdiction upon the federal district courts over "any civil action arising under any Act of Congress relating to patents." 28 U.S.C. § 1338(a). JA104-105. Read together, these two sections grant appellate jurisdiction to the Federal Circuit over "any civil action arising," "in whole or in part," "under *any* Act of Congress *relating to* patents."

As a matter of plain language, the present action arose in part under the patent law because one of the claims in this case – the counterclaim – is a patent law claim. Petitioner stresses that "[a] civil action is *commenced* by filing a complaint." FED. R. CIV. P. 3. Nothing in that rule nor this Court's precedent suggests, however, that a complaint defines the metes and bounds of a civil action. Instead, a civil action continues with the filing of counterclaims. *See, e.g., Fogg v. Ashcroft*, 254 F.3d 103, 107 (D.C. Cir. 2001)

(noting the Federal Rules of Civil Procedure define a civil action as "all claims for relief alleged in a single lawsuit").

This Court recognized as much in *Cardinal Chem. Co. v. Morton Int'l, Inc.*, 508 U.S. 83, 98 (1993). There the Court observed that the counterclaim in the declaratory judgment action "properly invoked the *original jurisdiction* of the District Court" under §1338. (Emphasis added). This Court stated:

> In this case, therefore, it is perfectly clear that the District Court had jurisdiction to entertain Cardinal's counterclaim for a declaratory judgment of invalidity. It is equally clear that the Federal Circuit, even after affirming the finding of noninfringement, had *jurisdiction* to consider Morton's appeal from the declaratory judgment of invalidity. A party seeking a declaratory judgment of invalidity presents a claim independent of the patentee's charge of infringement. If the District Court has jurisdiction (established independently from its jurisdiction over the patentee's charge of infringement) to consider that claim, so does (barring any intervening events) the Federal Circuit.

Id. at 96.

The conclusion that this action arises in part from respondent's counterclaim is confirmed by the *compulsory* nature of that counterclaim. Under the Federal Rules of Civil Procedure, a defendant's answer "*shall* state as a counterclaim any claim which . . . the pleader has against the opposing party, if it arises out of the transaction or occurrence that is the subject matter of the opposing party's claim . . . ." FED. R. CIV. P. 13(a) (emphasis added). In this case, petitioner's patent infringement is intertwined with its trade dress infringement, and was therefore *required* to be raised as a counterclaim. As a result, it strains credulity to suggest, as petitioner does, that the patent law claims do not

underlie this lawsuit every bit as much as the trade dress claims do. The plaintiff may be the master of his own complaint, but the compulsory counterclaim rule requires that the plaintiff's and defendant's claims be joined together in a single action regarding the entire "transaction or occurrence" – regardless of whether the plaintiff, as here, tactically omits some of the related claims from his declaratory judgment complaint.

In similar contexts, courts have long recognized that the resolution of jurisdictional issues requires consideration of the entire action, not just the plaintiff's claims. In declaratory judgment actions (like this one), courts have examined the "character of the threatened action," not just the declaratory judgment complaint. *Public Service Comm'n of Utah v. Wycoff Co.*, Inc., 344 U.S. 237, 248 (1952). As this Court has explained, "[f]ederal courts have regularly taken original jurisdiction over declaratory judgment suits in which, if the declaratory judgment defendant brought a coercive action to enforce its rights, that suit would necessarily present a federal question." *Franchise Tax Bd. v. Construction Laborers Vacation Trust*, 463 U.S. 1, 19 (1983).[7] In this case, examining a compulsory counterclaim for allegations of patent infringement is logical, since "in many actions for declaratory judgment, the realistic position of the parties is reversed," *Public Service Comm'n*, 344 U.S. at 248, and there is no question that in an original action respondent would have pleaded its patent law claims, which it was then pursuing before the ITC.

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[7]In *Franchise Tax Board*, the Court went on to decide, for reasons specific to the text of the Employee Retirement Income Security Act and federal-state comity issues which do not apply here, that a suit brought *by a state* for a declaration of the validity of *state* law is not removable. *See* 463 U.S. at 21. Based on the same "common sense accommodation of judgment to kaleidoscopic situations" that the Court applied in that case, *id.* at 20 (internal quotation omitted), a suit brought by an alleged patent infringer should be subject to the jurisdiction of the court created to handle patent cases – the Federal Circuit.

Moreover, even outside the declaratory judgment context, courts have looked to a party's counterclaim to invoke jurisdiction. For example, courts have repeatedly retained jurisdiction and adjudicated a counterclaim having its own jurisdictional basis even where the court had no jurisdiction over the complaint. *Rengo Co. Ltd. v. Molins Mach. Co.*, 657 F.2d 535, 539, (3rd Cir.), *cert. denied*, 454 U.S. 1055 (1981) ("[A] jurisdictional defect in the complaint will not preclude adjudication of a counterclaim over which the court has an independent [§1338] basis of jurisdiction."); *Pioche Mines Consol., Inc. v. Fidelity-Philadelphia Trust Co.*, 206 F.2d 336, 336-37 (9th Cir.), *cert. denied*, 346 U.S. 899 (1953) ("The counterclaim persists where it is supported by an independent basis [diversity] for jurisdiction," even though complaint was dismissed); *Isenberg v. Biddle*, 125 F.2d 741, 743 (D.C. Cir. 1941) (holding that where independent jurisdictional basis [Trading With The Enemy Act] exists for counterclaim that seeks affirmative relief, "it is sustainable without regard to what happens to the original complaint"); *National Research Bureau, Inc. v. Bartholomew*, 482 F.2d 386, 389 (3rd Cir. 1973) (holding that a counterclaim supported by independent jurisdiction afforded the district court federal jurisdiction: "[W]here, as here, jurisdiction is independent, the counterclaim must be allowed to proceed without regard to the fate of the original claim."); *see also, e.g., Ferguson v. Eakle*, 492 F.2d 26, 28 (3rd Cir. 1974); *Duncan v. First Nat'l Bank of Cartersville, Ga.*, 597 F.2d 51, 55, n.3 (5th Cir. 1979); *Kuehne & Nagel v. Geosource, Inc.*, 874 F.2d 283, 291 (5th Cir. 1989).

Courts have also stressed the importance of including compulsory counterclaims, rather than the complaint alone, in calculating the "amount in controversy" for diversity jurisdiction. *See, e.g., Mackay v. Unita Dev. Co.*, 229 U.S. 173, 176 (1913); *Spectacor Magmt. Group v. Brown*, 131 F.3d 120, 121 (3rd Cir. 1997), *cert. denied*, 523 U.S. 1120 (1998); *Swallow & Assoc. v. Henry Molded Products, Inc.*, 794 F. Supp. 660 (E.D. Mich. 1992); *Fenton v. Freedman*, 748 F.2d 1358 (9th Cir. 1984). This is yet another recognition of the reality

that compulsory counterclaims, not just the plaintiff's claims, should play a central role in jurisdictional determinations.

In this context, any other conclusion would sanction wholesale evasion of the Federal Circuit's jurisdiction. Any time a patent infringer expected an infringement suit to be brought, it could file a declaratory judgment action raising related claims but not patent law claims. As in this case, the patent holder would then be required to plead the patent law claims as compulsory counterclaims. But under petitioner's view, that gamesmanship would defeat Federal Circuit jurisdiction. The Court should not permit litigation to devolve into this sort of tactical and "disorderly race to the courthouse" through the use of declaratory judgments. *Hanes Corp. v. Millard*, 531 F.2d 585, 593-94 (D.C. Cir. 1976).

B. The Federal Circuit's Jurisdiction Over a Patent Counterclaim Conforms with the Well-Pleaded Complaint Rule.

Petitioner argues at length that the Federal Circuit failed to comply with the well-pleaded complaint rule, as articulated in *Christianson v. Colt Indus. Operating Corp.*, 486 U.S. 800 (1988). Petitioner is doubly wrong. As explained above, respondent's well-pleaded counterclaim confers jurisdiction on the Federal Circuit. In addition, *Christianson* had no occasion to address this issue and did not do so.

In *Christianson*, this Court looked to its cases interpreting the "arising under" language found in other jurisdictional provisions and held that a case "arises under" patent law in the context of § 1338 when a patentee "set[s] up some right, title or interest under the patent laws." In doing so, this Court recognized that "arising under" principles must be "appropriately adapted to § 1338(a)." *Id.* at 807, 809. This interpretation parallels the "well-pleaded complaint rule" used to define the scope of federal-question jurisdiction under 28 U.S.C. § 1331. *Id.* at 808.

The well-pleaded complaint rule was "laid down" in *Tennessee v. Union & Planters' Bank*, 152 U.S. 454, 459 (1894), which held a court may act on a question of United States law "only when the subject is submitted to it by a party who asserts his rights in the form prescribed by law." As this Court subsequently explained:

> "It would be wholly unnecessary and improper, in order to prove complainant's cause of action, to go into any matters of defense which the defendants might possibly set up, and then attempt to reply to such defense, and thus, if possible, to show that a Federal question might or probably would arise in the course of the trial of the case."

Boston & Montana Consol. Copper & Silver Min. Co. v. Montana Ore Purchasing Co., 188 U.S. 632, 638-639 (1903).

An important purpose of the well-pleaded complaint rule is to provide a "quick rule of thumb" in resolving federal-state jurisdictional conflicts. *See Franchise Tax Bd. v. Construction Laborers Vacation Trust*, 463 U.S. 1, 11 (1983). The rule allows courts to avoid having "to go to any matters of defense which the defendants might possibly set up." *Louisville & Nashville Ry. Co. v. Mottley*, 211 U.S. 149, 153 (1908), quoting *Boston & Montana Consol. Copper & Silver Min. Co. v. Montana Ore Purchasing Co.*, 188 U.S. 632 (1903). It also allows an early determination of proper jurisdiction at the pleading stage of a case, and prevents uncertainties regarding whether a party will raise an issue later in litigation that could implicate jurisdiction. *See Christianson*, 486 U.S. at 814 (holding jurisdiction is not determined by the "well-tried case"). Thus, the scope of the well-pleaded complaint doctrine and, concomitantly, the power of a court to hear a case is defined by two principles: *first*, that the right to sue in a federal court "cannot depend on the defense which the defendant may choose to set up," and *second*, that the jurisdiction of the court must be invoked

at the time when the claim is brought. *See Tennessee v. Union & Planters' Bank*, 152 U.S. at 459.

This Court continued to employ these principles to divine when an action arises under the Constitution or the laws of the United States. In light of these defining principles, the well-pleaded complaint rule has been applied in three ways: *first*, to bar federal jurisdiction that is based solely on a defense raised in an answer; *second*, to bar federal jurisdiction based upon a plaintiff's anticipation of a defense that could possibly be raised by the defendant; and *third*, to bar federal jurisdiction based upon allegations to support a case "that are not required by nice pleading rules." 13B C. WRIGHT, A. MILLER & E. COOPER, FEDERAL PRACTICE AND PROCEDURE § 3566, at 83-87 (2nd ed.).

These applications of the well-pleaded complaint rule, however, are a far cry from the situation here. The well-pleaded complaint rule allows federal jurisdiction over a claim raising a federal question properly invoked at the time and in the form prescribed by law. *See Franchise Tax*, 463 U.S. at 22, n.24 (recognizing that a properly filed counterclaim might provide an independent jurisdictional basis). *See also Aerojet-General Corp. v. Machine Tool Works, Oerlikon-Buehrle Ltd.*, 895 F.2d 736, 740 (Fed. Cir. 1990); *Xeta, Inc. v. Atex, Inc.*, 825 F.2d 604, 606 (1st Cir. 1987).

Thus, a clear and simple test to determine whether a case arises under patent law for purposes of § 1295(a)(1) is to look to the patentee's claim of infringement at the time it is pled, whether it is found as a claim in a complaint or as a counterclaim in an answer. The critical question under *Union & Planters' Bank* through *Christianson* is whether the patentee has asserted a claim to "some right, title or interest under the patent laws." *Christianson*, 486 U.S. at 807. If so, the jurisdiction of the Federal Circuit is properly invoked under 28 U.S.C. § 1295(a)(1).

Our position fully supports the defining principles of the well-pleaded complaint rule as appropriately adapted to §§ 1338(a) and 1295(a)(1). By looking to the pleadings,

including whether a patentee asserts a counterclaim of infringement, the appellate jurisdiction of the Federal Circuit is invoked without reference to anticipated defenses and at the time the case is filed. Indeed, this test conforms with the well-pleaded complaint rule because it focuses on *claims* rather than the uncertainty associated with issues that might arise during litigation.[8] *Christianson*, 486 U.S. at 809; *Christianson*, 486 U.S. at 820, n.1 (Stevens, J., concurring)(noting that the rule "ferret[s] out claims from issues"); *Louisville & Nashville Ry. Co.*, 211 U.S. at 153. The test also satisfies the purpose of the well-pleaded complaint rule. Indeed, "the 'well-pleaded complaint' rule. . . says nothing about whether [separating claims from issues] should be made only on the basis of the original complaint." *Christianson*, 486 U.S. at 820, n.1 (Stevens, J., concurring). Holding otherwise would confer jurisdiction under §1295 only when an assertion of patent infringement is found on the face of a complaint, but not when the same claim is posed as a counterclaim.[9] Nothing in law or logic suggests such an artificial approach.

Despite petitioner's assertion to the contrary, the exercise of appellate jurisdiction under 28 U.S.C. § 1295 over a case asserting a patent counterclaim is in no sense inconsistent with the holding in *Christianson*. This Court in *Christianson* ruled only on the narrow issue of whether the

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[8] Courts have differentiated between counterclaims and defenses, holding that a counterclaim is assertion of a *claim*, rather than a *defense*. *See, e.g., National Union Fire Ins. Co. of Pittsburgh, Pa. v. City Sav., F.S.B.*, 28 F.3d 376, 393-94 (3rd Cir. 1994); *Cincinnati Bell Telephone Co. v. Allnet Communication Services, Inc.*, 17 F.3d 921, 923 (6th Cir. 1994); *American First Federal, Inc. v. Lake Forest Park, Inc.*, 198 F.3d 1259, 1264-1265 (11th Cir. 1999); *Horsford v. Romeo*, 407 F.2d 1302, 1303 (3rd Cir. 1969).

[9] *Aerojet*, 895 F.2d at 742 ("It would seem at best incongruous to hold that we have appellate jurisdiction when a well-pleaded patent infringement claim is the basis of a pleading labeled 'complaint' but not when the *identical* well-pleaded claim is the basis of a pleading labeled 'counterclaim'").

Federal Circuit had jurisdiction over an appeal where a patent law issue was not necessary to the overall success of the asserted claim. *Christianson*, 486 U.S. at 810. After applying the well-pleaded complaint rule to the facts in *Christianson*, this Court held that the Federal Circuit did not have jurisdiction because no claim was pleaded that "set up some right, title or interest under the patent laws." *Id.* at 807. Critically, no patent law *claim* was made by either party-- neither in the complaint nor the answer.

Specifically, in *Christianson*, plaintiffs filed a complaint alleging violations of federal antitrust laws and, subsequently, a state law claim of tortious interference with business opportunities. *Id.* at 805. Defendant Colt answered denying violation of the antitrust laws and tortious interference, and counterclaimed alleging, among other things, misappropriation of trade secrets. Plaintiffs denied misappropriation of defendant's trade secrets, stating that Colt was not entitled to assert trade secret status to its confidential information because such information should have been disclosed in its patents. *Id.* This Court characterized plaintiff Christianson's patent-law issue as necessary only for a theory to its antitrust claims but not necessary for the overall success of the claims. *Id.* at 811.

Notwithstanding its ultimate decision that the Federal Circuit lacked jurisdiction, this Court did not hold in *Christianson* (or any other case for that matter) that only the complaint may be considered in deciding whether a claim arises under the patent laws. As such, *Christianson* manifestly does not stand for the destabilizing proposition that a non-frivolous counterclaim alleging patent infringement cannot provide the basis for appellate jurisdiction to the Federal Circuit under 28 U.S.C. § 1295(a)(1).

Instead, the relevant cases are those elaborately canvassed by the Federal Circuit in *Aerojet*. There, the Federal Circuit, sitting *en banc*, carefully evaluated the jurisdictional framework in a unanimous *en banc* opinion

authored by then-Chief Judge Markey. The Federal Circuit noted that in the *Christianson* litigation itself, the Federal Circuit had determined that it lacked jurisdiction in that matter, inasmuch as no patent claims or counterclaims were raised. *See* 895 F.2d at 741. So too in *Schwartzkopf Dev. Corp. v. Ti-Coating, Inc.*, the Federal Circuit had previously distinguished defenses from claims (including counterclaims) when it held that it lacked jurisdiction because a counterclaim was withdrawn at the pleading stage and before a responsive pleading had been filed. 800 F.2d 240, 244 (Fed. Cir. 1986).

Drawing on these cases, the *Aerojet* court went on to explain that because "no patent *claims* appeared in the complaint or in any counterclaim, *Christianson* is clearly distinguishable." 895 F.2d at 741. Instead, the dispositive point was that the defendant's "counterclaim for patent infringement is a separate, well-pleaded claim with its own jurisdictional basis and that basis is section 1338." *Id.* at 742. Moreover, "courts have repeatedly retained jurisdiction and adjudicated a counterclaim having its own jurisdictional basis even where the court had no jurisdiction over the complaint." *Id.* In the context of § 1295, therefore, the court concluded that "reliance upon a counterclaim with its own appeal-directing basis (§ 1338) as invoking our appellate jurisdiction accords with the well-pleaded complaint rule rightly understood." *Id.*

Chief Judge Markey also noted that a unanimous panel of the First Circuit, including then-Judge Breyer, had likewise transferred an appeal to the Federal Circuit because "the defendant included a viable patent counterclaim." *Xeta, Inc. v. Atex, Inc.*, 825 F.2d 604, 608 (1st Cir. 1987). In *Xeta*, the plaintiff brought antitrust and other claims against a competitor, and the defendant responded by filing a counterclaim for patent infringement. *Id.* at 605. The First Circuit concluded that "(1) the district court's jurisdiction was based 'in part' on 28 U.S.C. § 1338 where the defendant included a viable patent counterclaim; and (2) pursuant to

28 U.S.C. §§ 1295(a)(1) and 1292(c), the Federal Circuit properly has jurisdiction over the appeal . . . ." *Id.* at 608. These are the apposite authorities on the application of the well-pleaded complaint rule in the present context, not *Christianson.*

C. Federal Circuit Jurisdiction Over Declaratory Judgment Actions with Patent Counterclaims is Necessary to Effectuate Congress' Intent to Secure Uniformity and Eliminate Forum Shopping.

The Federal Circuit further recognized that its construction of the jurisdictional statutes is necessary to fulfill Congress' intent "to foster uniformity and preclude forum shopping." *Aerojet*, 895 F.2d at 744. In *Christianson*, this Court had recognized that "arising under" principles must be "appropriately adapted to § 1338(a)." 486 U.S. at 809. The *Aerojet* court likewise recognized that "'determinations about federal jurisdiction require sensitive judgments about congressional intent, judicial power, and the federal system.'" 895 F.2d at 741 (quoting *Merrell Dow Pharm. Inc. v. Thompson*, 478 U.S. 804, 810 (1986)). "'[A] construction that undermines a statute's goal cannot stand.'" *Id.* at 745 (quoting *Community for Creative Non-Violence v. Reid*, 490 U.S. 730 (1989)).

Prior to the formation of the Federal Circuit in 1982, Congress recognized that the process of appealing patent cases to the regional circuits promoted "'mad and undignified races' between alleged infringers and patent holders to be the first to institute proceedings in the forum they consider most favorable." H.R. REP. NO. 312, 97TH CONG., 1ST SESS. 21 (1981). This forum-shopping, Congress concluded, "demean[ed] the entire judicial process and the patent system as well." *Id.* (citation omitted).

In creating the Federal Circuit, Congress wanted "to reduce the widespread lack of uniformity and uncertainty of legal doctrine that exist in the administration of patent law." H.R. REP. NO. 97-312 at 23. Congress found inconsistency among the circuits in both the patent law itself and the application of the law to the facts of individual cases. *Id.* at 21; *see also* S. REP. NO. 275, 97TH CONG., 1ST SESS. 13 (1981). This variability lead to forum shopping as patentees would scramble to get into the "pro-patent" circuits and alleged infringers would run to "anti-patent" circuits. H.R. REP. NO. 97-312 at 20-21 (citing the Commission on Revision of the Federal Court Appellate System, Structure and Internal Procedures: Recommendations for Change, 15, 144-57, 67 F.R.D. 195, 214, 361-76 (1975)). The resultant unpredictable outcome of contemplated litigation hindered industrial innovation and effective business planning. H.R. REP. NO. 97-312 at 20, 22 (citing the Industrial Research Institute's poll showing that leading industrial companies overwhelmingly favored a centralized patent appeals court.) Congress concluded that creation of the Federal Circuit would strengthen the United States patent system by providing consistent and uniform law and eliminating the widespread forum-shopping that existed in the adjudication of patent cases.

Respondent's position adheres to Congressional intent of promoting the uniformity of patent law and discouraging forum-shopping. As the Federal Circuit reasoned in *Aerojet*, "Congressional goals are facilitated when appeals in cases involving nonfrivolous claims arising under the patent laws, whether found in complaints or in compulsory counterclaims, are directed to this court." *Aerojet-General Corp. v. Machine Tool Works, Oerlikon-Buehrle Ltd.*, 895 F.2d 736, 744 (Fed. Cir. 1990). Moreover, there is no fear that a patentee might manipulate appellate jurisdiction as he is bound by rule to file his compulsory counterclaim at the pleading stage. *See* FED. R. CIV. P. 13(a).

On the other hand, the potential for manipulation of appellate jurisdiction by infringers and patentees alike will again surface under the scheme proposed by petitioners.

> Congress' goal of ensuring that appeals of patent-law claims go to the Federal Circuit would be thwarted by determining that court's appellate jurisdiction only through an examination of the complaint as initially filed. That approach would enable an unscrupulous plaintiff to manipulate appellate court jurisdiction by the timing of the amendments in its complaint.

Christianson, 486 U.S. at 823-824 (Stevens, J., concurring). Likewise, "[d]irecting appeals involving compulsory counterclaims for patent infringement to the twelve regional circuits could frustrate Congress' desire to foster uniformity and preclude forum shopping." *Aerojet*, 895 F.2d at 744.

II. THE FEDERAL CIRCUIT DID NOT ERR IN EXERCISING JURISDICTION OVER THIS APPEAL.

The Federal Circuit properly asserted jurisdiction over this appeal, following the law of this Court in *Christianson* and respecting the intent of Congress to promote a uniform body of patent law. Briefly stated, it is undisputed that respondent Vornado timely plead a non-frivolous counterclaim of patent infringement – a claim which unquestionably arose under, indeed was created by, the patent laws of the United States. Thus, in every sense, the Federal Circuit followed the defining principles, as adapted to 28 U.S.C. § 1338, of the well-pleaded complaint rule, and thereby properly asserted jurisdiction under 28 U.S.C. § 1295(a)(1). As Justice Cardozo advised in *Gully v. First Nat'l Bank in Meridian*, 299 U.S. 109, 117 (1936), the Federal

Circuit applied "common-sense accommodation of judgment to [a] kaleidoscopic situation[]."

Here, as we chronicled earlier, respondent asserted first its claim of patent infringement in the International Trade Commission. In that action, Vornado fully apprised petitioner of the details of its patent claim including providing a detailed element-by-element analysis of the alleged patent infringement. As a result of Vornado's complaint and corresponding detailed infringement analysis, the ITC commenced an investigation of Vornado's claim. In instituting an investigation, the ITC recognized that Vornado had asserted a non-frivolous claim of patent infringement. *See* 19 C.F.R. § 210.10. Ignoring what it knew to be a patent dispute between the parties, however, petitioner filed its district court action in Kansas, claiming only that its fans did not infringe Vornado's trade dress. In response, Vornado asserted a compulsory counterclaim of infringement that was, just two weeks earlier, set forth in a complaint filed in the ITC.

In light of this procedural framework and as illuminated by *Christianson*, the pleadings in this case established "some right, title or interest under the patent laws" by way of respondent Vornado's non-frivolous counterclaim of patent infringement. *See Christianson*, 486 U.S. at 807. The principles of the well-pleaded complaint rule have thus been abundantly satisfied: the Federal Circuit's jurisdiction was not based upon a defense or issue that might have been asserted in the case, and the timing of the Federal Circuit's jurisdiction was set at the pleading stage of the case. Indeed, had petitioner not raced to the forum of its choosing, there would have been no dispute that the appeal of this case would properly be laid at the Federal Circuit. As the Federal Circuit recognized, "[i]t would seem at best incongruous to hold that [the Federal Circuit would] have appellate jurisdiction when a well-pleaded patent infringement claim is the basis of a pleading labeled 'complaint' but not when the *identical* well-pleaded claim is

the basis of a pleading labeled 'counterclaim.'" *Aerojet-General Corp. v. Machine Tool Works, Oerlikon-Buehrle Ltd.*, 895 F.2d 736, 742 (Fed. Cir. 1990).

Petitioner's conduct below, on the other hand, was precisely the type of forum-shopping Congress intended to prevent. Recognizing that the law of the Federal Circuit was unfavorable to its position, petitioner manipulated jurisdictional rules by bringing a declaratory judgment action that conveniently omitted a patent law claim integral to the case. To reward petitioner's conduct by sustaining its position, this Court must overrule a decade-long procedure of the Federal Circuit grounding its jurisdiction upon well-pleaded claims. To do so would profoundly disserve the intent of Congress to curtail forum-shopping and promote a uniform body of patent law.

CONCLUSION

For the reasons set forth above, the Federal Circuit's order should be affirmed.

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(1)

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IN THE

Supreme Court of the United States

THE HOLMES GROUP, INC.,

Petitioner,

—against—

VORNADO AIR CIRCULATION SYSTEMS, INC.,

Respondent.

ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

REPLY BRIEF

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CORPORATE DISCLOSURE STATEMENT

Petitioner's Corporate Disclosure Statement was set forth at page iii of Petitioner's Opening Brief, and there are no amendments to that Statement.

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If there is one thing this case clearly is *not* about, it is anything to do with what Respondent calls "uniformity in the body of patent law" (Brief for Respondent [hereinafter "Resp. Br."] at 1). Petitioner did not seek, and the District Court did not award, any relief under federal patent law; the Federal Circuit's unpublished decision below does not mention patent law; and by Order of the District Court dated June 12, 2000 (JA101-102), Respondent's patent counterclaim was effectively withdrawn and will never be presented to any court if the summary judgment awarded Petitioner in March 2000 is affirmed.[1]

Respondent urges this Court to expand drastically the exclusive appellate jurisdiction of the Federal Circuit, not on the basis of any existing or non-speculative threat to the "uniformity" of federal patent law, but simply to improve this particular Respondent's chances of mounting a successful collateral attack on the final judgment of "trade dress" invalidity rendered in *Vornado Air Circulation Sys., Inc. v. Duracraft Corp.*, 58 F.3d 1498 (10th Cir. 1995), *cert. denied*, 516 U.S. 1067 (1996) ("*Vornado I*"). In its briefs to the Federal Circuit (L152, L251), Respondent openly urged the Federal Circuit to reject the Tenth Circuit's holding in *Vornado I* and to permit Respondent to re-litigate the validity of exactly the same alleged "trade dress" held unprotectable in *Vornado I*. Respondent could make this argument only because, in the late 1990's, the Federal Circuit repudiated its prior practice of applying regional circuit law "in all but the substantive law fields assigned exclusively to this

1. The Order of this Court dated November 8, 2001, granting certiorari did not include Question No. 2 addressed to "whether Rule 54(b) can be used to direct an appeal to a particular circuit." *Unique Concepts, Inc. v. Manuel*, 930 F.2d 573, 575 (7th Cir. 1991) (Easterbrook, J.). The Court has thus left it open to Respondent to seek Federal Circuit review of any future judgment that might be issued on Respondent's currently unlitigated and wholly contingent patent counterclaim.

court,"[2] and thereby undermined a key basis on which the Federal Circuit had earlier justified extending its exclusive appellate jurisdiction over antitrust, copyright, "trade dress," and other non-patent cases based solely on a defendant's assertion of a patent law counterclaim against the plaintiff.[3]

Respondent proposes a novel "test to determine whether a case arises under patent law for purposes of 28 U.S.C. § 1295(a)(1)" (Resp. Br. at 16), one that is completely at odds with the holding and reasoning of *Christianson v. Colt Indus. Operating Corp.*, 486 U.S. 800 (1988). *Christianson* limited Federal Circuit jurisdiction to conform to the "clear congressional intent" that "cases fall within the Federal Circuit's patent jurisdiction 'in the same sense that cases are said to "arise under" federal law for purposes of federal question jurisdiction.'" *Id.* at 814 (quoting H.R. Rep. No. 97-312 at 41). In suggesting that an interest in "greater uniformity in the body of patent law" (Resp. Br. at 1) justifies

2. *Atari, Inc. v. JS&A Group, Inc.*, 747 F.2d 1422, 1439 (Fed. Cir. 1984) (*en banc*), *overruled by Nobelpharma AB v. Implant Innovations, Inc.*, 141 F.3d 1059, 1068 (Fed. Cir.), *cert. denied*, 528 U.S. 1019 (1998). *See Midwest Indus., Inc. v. Karavan Trailers, Inc.*, 175 F.3d 1356, 1358-59 & n.1 (Fed. Cir.), *cert. denied*, 528 U.S. 1019 (1999) (Federal Circuit "[t]henceforth" would apply its "own" law, in place of regional circuit law, in determining whether product configurations were protectable as "trade dress" under 15 U.S.C. § 1125(a) or state law), *overruled on other grounds by TrafFix Devices, Inc. v. Mktg. Displays, Inc.*, 121 S. Ct. 1255 (2001).

3. In *Biodex Corp. v. Loredan Biomedical, Inc.*, 946 F.2d 850 (Fed. Cir. 1991), *cert. denied*, 504 U.S. 980 (1992), the Federal Circuit candidly acknowledged that "a rationale upon which *Atari* was based, adherence to regional circuit law to promote uniformity in pendent substantive legal issues . . . has been undermined by our decision in *Aerojet-General Corp. v. Machine Tool Works, Oerlikon-Buehrle Ltd.*, 895 F.2d 736 (Fed. Cir. 1990). . . ." 946 F.2d at 858 n.11.

the creation of some special, non-uniform jurisdictional "test" for Federal Circuit jurisdiction which deviates from the well-pleaded complaint rule governing District Court jurisdiction under 28 U.S.C. §§ 1331 and 1338(a), Respondent effectively urges exactly the same "policy" argument for expanding Federal Circuit jurisdiction which the *Christianson* majority expressly rejected in 1988. 486 U.S. at 813-14.[4]

For nearly 100 years, this Court has held that a plaintiff who commences a civil action (a) "is absolute master of what jurisdiction he will appeal to"[5] and also (b) "is master to decide what law he will rely upon."[6] The Court has thus

4. For similar reasons, Respondent's reliance on *Xeta, Inc. v. Atex, Inc.*, 825 F.2d 604 (1st Cir. 1987), is misplaced. *Xeta* was decided before *Christianson* and before the Federal Circuit repudiated its prior practice of applying regional circuit law "in all but the substantive law fields assigned exclusively to this court." *Atari*, 747 F.2d at 1439, *overruled by Nobelpharma*, 141 F.3d at 1059. Without the benefit of *Christianson*, the First Circuit in *Xeta* transferred a preliminary injunction appeal to the Federal Circuit notwithstanding that the plaintiff's well-pleaded complaint in that case stated only antitrust and state unfair competition claims. The *Xeta* decision did not cite or distinguish cases in other circuits holding that a defendant's answer and counterclaim does not operate to create "arising under" jurisdiction for purposes of general federal question jurisdiction. A listing of such cases (many of which were decided after *Xeta*) appears on pages 9 and 20-21 of Petitioner's main brief ("Pet. Br."). *See also Boggild v. Kenner Prods., Div. of CPG Prods. Corp.*, 853 F.2d 465, 467-69 (6th Cir. 1988) (regional circuit had jurisdiction over case involving claim for breach of patent license, notwithstanding defendant's counterclaim seeking a declaration that the license was unenforceable as a matter of federal patent law).

5. *Healy v. Sea Gull Specialty Co.*, 237 U.S. 479, 480 (1915) (Holmes, J.).

6. *The Fair v. Kohler Die & Specialty Co.*, 228 U.S. 22, 25 (1913) (Holmes, J.).

explicitly held that "[j]urisdiction may not be sustained on a theory that the *plaintiff* has not advanced."[7] And with specific reference to 28 U.S.C. §§ 1338(a) and 1295(a)(1), the Court has held that for a case to be one "arising under" federal patent law, "the *plaintiff* must set up some right, title, or interest under the patent laws, or at least make it appear that some right or privilege will be defeated by one construction, or sustained by the opposite construction of these laws." *Christianson*, 486 U.S. at 807-08 (emphasis added; quoting *Pratt v. Paris Gaslight & Coke Co.*, 168 U.S. 255, 259 (1897)).[8]

It has long been recognized that a plaintiff may have reasons for preferring one jurisdiction over another, and for preferring one jurisdiction's law over that of another; and this Court has repeatedly acted to preserve and protect the "plaintiff's traditional prerogative of forum selection." 14B C. Wright, A. Miller & E. Cooper, *Federal Practice and*

7. *Merrell Dow Pharm. Inc. v. Thompson*, 478 U.S. 804, 809 n.6 (1986) (emphasis added).

8. Respondent's brief ("Resp. Br.") quotes the same passage from *Christianson* as is quoted in the text above, but inexcusably substitutes the word "patentee" for the word "plaintiff" in its characterization of what the Court "held" (Resp. Br. at 14). Contrary to Respondent's mischaracterization, *Christianson* expressly and repeatedly held that "the district court's jurisdiction is determined by reference to the well-pleaded *complaint*," 486 U.S. at 814 (emphasis added), by "what necessarily appears in the *plaintiff's* statement of his own claim," *id.* at 809 (emphasis added), and that the Federal Circuit has no appellate jurisdiction "over an appeal where the well-pleaded *complaint* does not depend on patent law." *Id.* at 814 (emphasis added). Further, non-patentee plaintiffs are fully capable of commencing actions which "arise under" federal patent law. *E.g., Hunter Douglas, Inc. v. Harmonic Design, Inc.*, 153 F.3d 1318 (Fed. Cir. 1998), *cert. denied*, 525 U.S. 1143 (1999) (action alleging wrongful procurement and publicizing of invalid patent claims held one "arising under" federal patent law).

Procedure § 3722, at 453 (3d ed. 1998). Thus, for example, in *Caterpillar Inc. v. Williams*, 482 U.S. 386 (1987), this Court held that "the plaintiff may, by eschewing claims based on federal law, choose to have the cause heard in state court." *Id.* at 399. In *Great Northern Ry. Co. v. Alexander*, 246 U.S. 276 (1918), the Court similarly held that a plaintiff's choice of a state court forum could not be defeated by a defendant's "subsequent pleadings." *Id.* at 281, *cited in Caterpillar*, 482 U.S. at 392 n.7. And outside the Federal Circuit, the Courts of Appeals are unanimous in holding that a plaintiff's choice of a state court forum cannot be defeated by a defendant's service of an answer containing a federal law counterclaim. *E.g., Saturday Evening Post Co. v. Rumbleseat Press, Inc.*, 816 F.2d 1191, 1195 (7th Cir. 1987) (Posner, J.) ("That federal jurisdiction depends on the complaint rather than on the answer, counterclaim, or other subsequent pleadings is an aspect of the 'well-pleaded complaint' rule. . . .").[9]

The present case, like *Caterpillar* and *Christianson* and any number of other decisions of this Court construing the "arising under" language of 28 U.S.C. §§ 1331 and 1338(a), pits a plaintiff's choice of law and forum against that of a defendant. The Petitioner chose to file suit in the District of Kansas (within the Tenth Circuit) and deliberately invoked the "trade dress" law of the Tenth Circuit, including the final judgment of invalidity rendered in *Vornado I*. Under the well-pleaded complaint rule as repeatedly articulated and applied by this Court, the Petitioner was "absolute master" to frame its complaint as it did and to include, or exclude, such claims or theories of relief it might have had against Respondent or others at the time. It is certainly true, as Respondent suggests, that in December 1999, the Petitioner likely could have pleaded one or more claims against Respondent which "arose

9. *See* the authorities cited in Petitioner's main brief (Pet. Br. at 13 & n.9 and 20-21 & nn. 14-16).

under" federal patent law,[10] but it is equally clear that Petitioner was entitled to "eschew" any such claim, *Caterpillar*, 482 U.S. at 399, and to do so for the very purpose of preserving Petitioner's access to the Tenth Circuit. *Id.*[11]

The Respondent nevertheless contends that by serving an answer to Petitioner's complaint which included a patent law counterclaim, the Respondent (1) automatically ousted the Tenth Circuit of appellate jurisdiction over Petitioner's suit (Resp. Br. at 10), and (2) automatically effected a fundamental change in the substantive law governing the non-patent claims alleged in Petitioner's complaint (*id.* at 5). As noted above, Respondent's briefs below openly and unabashedly argued that the Federal Circuit should decide this case on the basis of its "own" standard of "trade dress" protection (L168-170, 173-180, 265-273), notwithstanding that Respondent had earlier attempted and failed to persuade the Tenth Circuit to adopt the Federal Circuit "trade dress" standard in *Vornado I.*

While purporting to catalogue the "principles" used by this Court "to divine when an action arises under the

10. *Cf. Hunter Douglas, Inc. v. Harmonic Design, Inc.*, 153 F.3d 1318 (Fed. Cir. 1998), *cert. denied*, 525 U.S. 1143 (1999) (state law claim alleging wrongful publicizing of invalid patent claims was one "arising under" federal patent law).

11. While (falsely) accusing Petitioner of "manipulat[ing] jurisdictional rules" (Resp. Br. at 9, 24), Respondent makes no argument that Petitioner's complaint in this action was not "well-pleaded" or "omitt[ed] to plead necessary federal questions." *Rivet v. Regions Bank*, 522 U.S. 470, 475 (1998) (quoting *Franchise Tax Bd. v. Constr. Laborers Vacation Trust*, 463 U.S. 1, 22 (1983) (describing "artful pleading" corollary to the well-pleaded complaint rule)). Respondent appears to complain, rather, that Petitioner's complaint was *too* well-pleaded, for it resulted in an award of summary judgment to Petitioner.

Constitution or laws of the United States" (Resp. Br. at 16), Respondent pointedly fails to include the principle that "the party who brings a suit is master to decide what law he will rely upon and therefore does determine whether he will bring a 'suit arising under' the patent or other law of the United States by his declaration or bill. The question cannot depend upon the answer. . . ." *The Fair v. Kohler Die & Specialty Co.*, 228 U.S. 22, 25 (1913) (Holmes, J.). Respondent does not distinguish, but simply disregards *The Fair*, *Caterpillar*, and numerous other decisions of this Court holding that "[j]urisdiction cannot be based on a theory the plaintiff has not advanced." *Merrell Dow*, 478 U.S. at 809 n.6.

Respondent sets up its various legal and policy arguments with a misstatement, repeated over and over again throughout Respondent's brief, that this case was brought by Petitioner as "a declaratory judgment action" (Resp. Br. at 1) "seeking only a declaration that Holmes's sales of its products did not infringe Vornado's asserted trade dress" (*id.* at 3-4). Notwithstanding the frequency with which Respondent repeats this assertion,[12] it is simply not true. Not only did Petitioner's complaint set forth seven claims for relief and seek damages and injunctive relief against Respondent (L2-15), but the District Court actually issued a preliminary

12. E.g., "petitioner filed a declaratory judgment action" (Resp. Br. at 1), "in the present setting of a declaratory judgment action" (*id.*), "petitioner Holmes commenced a district court action . . . seeking only a declaration" (*id.* at 3), "it is difficult to reconcile how petitioner was motivated to file a declaratory judgment action" (*id.* at 4 n.3), "this declaratory judgment action" (*id.* at 7), "preemptive declaratory judgment actions" (*id.*), "forum shopping by declaratory judgment plaintiffs" (*id.* at 8); "manipulate jurisdictional rules by bringing a declaratory judgment action" (*id.* at 9), "declaratory judgment actions (like this one)" (*id.* at 12), "petitioner manipulated jurisdictional rules by bringing a declaratory judgment action" (*id.* at 24).

injunction against Respondent on January 4, 2000 (JA84-86) restraining Respondent from acts of false advertising and deceptive practices under 15 U.S.C. § 1125(a) and Mass. Gen. L. ch. 93A, §§ 2 and 11. The issue on which the District Court granted summary judgment in favor of Petitioner was germane to multiple claims for affirmative relief pleaded by Petitioner.

Respondent's mischaracterization of Petitioner's suit as a mere "declaratory judgment action" is also without jurisdictional significance. It is true, as Respondent notes (Resp. Br. at 12), that a plaintiff can invoke "arising under" jurisdiction by pleading a threatened federal claim by another. *See Franchise Tax Bd. v. Constr. Laborers Vacation Trust*, 463 U.S. 1, 19 (1983); *Public Service Comm'n v. Wycoff Co.*, 344 U.S. 237, 248 (1952) (by implication). But this principle merely permits "arising under" jurisdiction to be based on a *complaint* which pleads a threatened federal claim by another. As *Franchise Tax Bd.* itself makes clear, the "well-pleaded complaint rule" does not permit a federal court to base jurisdiction on a defendant's answer which raises claims or issues *not* presented in a plaintiff's well-pleaded complaint. *Id.* at 10 n.9.

Respondent next cites to *Cardinal Chem. Co. v. Morton Int'l, Inc.*, 508 U.S. 83 (1993), as purported authority for upholding the Federal Circuit's exercise of jurisdiction in this case. In *Cardinal Chemical*, the plaintiff had filed suit for patent infringement, and the defendant had asserted an affirmative defense of invalidity. The defendant had also, as is now common practice, made its invalidity defense the subject of a counterclaim for a declaratory judgment that the plaintiff's patent was invalid. The Court observed in *Cardinal Chemical* that the defendant "had properly invoked the original jurisdiction of the District Court." 508 U.S. at 98. But contrary to Respondent's apparent suggestion, the

"original jurisdiction" referred to in the cited passage was *supplemental* jurisdiction[13] in an action otherwise "arising under" federal patent law by reason of the plaintiff's claim of infringement. Having been commenced as a conventional action for patent infringement invoking federal question jurisdiction, the *Cardinal Chemical* decision clearly is not authority that a defendant's answer and counterclaim can render a civil action one "arising under" federal patent law if the plaintiff's well-pleaded complaint seeks no relief under patent law.[14]

The error of Respondent's reliance on *Cardinal Chemical* can be appreciated by considering an action for breach of contract to pay royalties for use of a patented invention. It is well-settled that such an action is not one "arising under" federal patent law; and this is so regardless of whether the defendant asserts, by way of defense, that the licensed patent is invalid. *E.g.*, *Lear, Inc. v. Adkins*, 395 U.S. 653 (1969) (state court had jurisdiction to hear claim for breach of patent license including invalidity defense); *Speedco Inc. v. Estes*, 853 F.2d 909 (Fed. Cir. 1988) (same). But under Respondent's

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13. Following the commencement of a "civil action," a District Court has "supplemental jurisdiction over all other claims that are so related to claims in the action within such original jurisdiction that they form part of the same case or controversy under Article III of the United States Constitution." 28 U.S.C. § 1367(a). By statutory definition, supplemental jurisdiction depends on the prior existence of a "civil action of which the district courts have original jurisdiction." *Id.* Supplemental jurisdiction clearly encompasses a counterclaim of the type asserted in *Cardinal Chemical*.

14. The question decided in *Cardinal Chemical* was whether the Federal Circuit properly vacated a declaratory judgment of invalidity after determining that the defendant had not infringed the plaintiff's patent. The case had nothing to do with "arising under" jurisdiction or the scope of 28 U.S.C. §§ 1338(a) and 1295(a)(1).

(clearly erroneous) argument, such a suit could readily be converted into a case "arising under" federal patent law through the simple expedient of the defendant asserting a counterclaim for a declaratory judgment of invalidity as was done in *Cardinal Chemical*. As at least one regional circuit has held, a counterclaim arising under patent law does not cut off regional Circuit jurisdiction over a case wherein the plaintiff pleads only breach of contract. *Boggild v. Kenner Prods., Div. of CPG Prods. Corp.*, 853 F.2d 465, 467-69 (6th Cir. 1988) (regional circuit had appellate jurisdiction over case when plaintiff alleged breach of a patent license, notwithstanding defendant's counterclaim alleging that the license was unenforceable as a matter of federal patent law).

Respondent asserts that its proposed "test" for Federal Circuit jurisdiction (Resp. Br. at 16) is not inconsistent with the principle that "a case raising a patent-law defense does not, for that reason alone, 'arise under' federal patent law," *Christianson*, 486 U.S. at 809, because according to Respondent, "[c]ourts have differentiated between counterclaims and defenses." Resp. Br. at 17 n.8. But as Respondent's own argument based on *Cardinal Chemical* reveals, there is often no meaningful distinction between patent law "defenses" and "counterclaims" as a practical matter.

Respondent does not cite or distinguish any of the numerous authorities cited by Petitioner (Pet. Br. at 20-21 & n.15) holding that defenses and counterclaims contained in a defendant's answer are both equally extraneous to the existence or non-existence of "arising under" jurisdiction governed by the well-pleaded complaint rule. The authorities cited by Respondent in support of its contrary argument (Resp. Br. at 17 n.8) deal with spectacularly irrelevant subjects such as whether an affirmative defense to a

promissory note is subject to the exhaustion requirement of 12 U.S.C. § 1821(d).[15]

Respondent also cites authorities holding that a District Court can "retain" jurisdiction over a counterclaim notwithstanding that plaintiff's complaint might be defective (Resp. Br. at 13). But as Petitioner has previously demonstrated (Pet. Br. at 30), these authorities are inapposite to whether a defendant's answer and counterclaim operates to *change* the basis of a civil action commenced, as the present action was, by the filing of a *well-pleaded* complaint properly invoking the original jurisdiction of the District Court. A counterclaim often will not be one "arising under" federal patent law but nonetheless will fall within a District Court's supplemental jurisdiction under 28 U.S.C § 1367. The well-pleaded complaint rule, not the supplemental jurisdiction statute, governs the existence or non-existence of "arising under" jurisdiction for purposes of 28 U.S.C. §§ 1338(a) and 1295(a)(1). *See Christianson*, 486 U.S. at 808-09, 813-14.

Respondent suggests that it was permissible in this case for the Federal Circuit to look past the face of Petitioner's well-pleaded complaint because Respondent assertedly "was obliged to assert its related patent claim as a compulsory counterclaim" (Resp. Br. at 1);[16] Petitioner assertedly

15. *American First Fed., Inc. v. Lake Forest Park, Inc.*, 198 F.3d 1259, 1263 (11th Cir. 1999).

16. Respondent notably does not cite, and offers no defense of, the Federal Circuit's position that it has exclusive jurisdiction over cases in which a defendant's answer asserts a permissive, as distinct from a compulsory, counterclaim. *DSC Communications Corp. v. Pulse Communications, Inc.*, 170 F.3d 1354 (Fed. Cir.), *cert. denied*, 528 U.S. 923 (1999). Nothing in the decision below indicates that the allegedly "compulsory" nature of Respondent's counterclaim formed any basis of the Federal Circuit's taking of jurisdiction in this case.

"understood" this (*id.* at 7), and it assertedly "strains credulity to suggest, as petitioner does, that the patent law claims do not underlie this lawsuit every bit as much as the trade dress claims do" (*id.* at 11-12). From these premises, Respondent accuses Petitioner of having "manipulated jurisdictional rules" (*id.* at 24) . Respondent's *ad hominem* argument is flawed at several levels.[17]

Why a plaintiff might be "motivated" to frame a complaint in a particular way (Resp. Br. at 4 n.3) is of course irrelevant to whether a complaint as filed is "well-pleaded" for jurisdictional purposes. To make "arising under" jurisdiction dependent on a plaintiff's "motives" would completely destroy the "bright line" standard of looking to what "is presented on the face of the plaintiff's properly pleaded complaint." *Rivet v. Regions Bank*, 522 U.S. 470,

17. Although not germane to the jurisdictional questions pending before the Court, Respondent's *ad hominem* argument is wholly unsupported and baseless as reflected in the Declaration of Paul J. Powers sworn to December 17, 1999 ("Powers Decl.") submitted in support of Petitioner's successful application for preliminary injunctive relief against Respondent:

> Buyers for major customers have already called and expressed concern over Vornado's allegations. The damage this is causing to Holmes' business and reputation is incalculable. I and our individual sales people will have difficulty trying to reassure our customers with respect to the "trade dress" claim being made by Vornado. Unlike claims of patent infringement, which can be assessed against specific claim language, the existence or non-existence of the type of "trade dress" rights Vornado appears to be claiming (for a second time) is not registered or recorded anywhere and is said by Vornado to depend on, among other things, the mental states of large numbers of consumers and other factors which are not easily or certainly determinable. (Powers Decl. ¶ 12)

475 (1998) (quoting *Caterpillar Inc. v. Williams*, 482 U.S. 386, 392 (1987)).

There is, further, nothing novel or unusual about a plaintiff deliberately "eschewing" available claims or legal theories in order to establish a jurisdictional choice. *Caterpillar*, 482 U.S. at 392 & n.7, 399. To suggest, as Respondent does, that a plaintiff can be stripped of its chosen law and forum because the plaintiff allegedly can foretell the future and anticipate a counterclaim by the defendant,[18] is simply a frontal assault on the well-pleaded complaint rule itself. *See Christianson*, 486 U.S. at 809 (plaintiff's anticipation of federal law defense cannot create "arising under" jurisdiction).

Respondent emphasizes that at the time Petitioner commenced this action on December 8, 1999, Respondent was actively attempting to persuade the ITC to institute an "investigation" of Petitioner under 19 U.S.C. § 1337 and had lodged a "complaint" with the ITC accusing Petitioner of both patent and "trade dress" infringement (Resp. Br. at 1, 3). Respondent eventually succeeded in persuading the ITC to institute Investigation No. 337-TA-426 (the "ITC proceeding"; *see* 65 Fed. Reg. 4260 (Jan. 26, 2000)).[19]

18. Contrary to Respondent's apparent belief, Fed. R. Civ. P. 13(a) does not "oblige" a defendant to assert a compulsory counterclaim. It frequently happens that a person sued in a civil action turns around and counter-sues in a second jurisdiction; and the District Courts have substantial discretion to decide whether the first-filed or the second-filed action should proceed. *E.g., Kerotest Mfg. Co. v. C-O-Two Fire Equip. Co.*, 342 U.S. 180, 185-86 (1952) (affirming stay of declaratory judgment action in favor of later-commenced action for patent infringement).

19. The ITC proceeding was terminated on July 20, 2000, with no action taken against Petitioner. Respondent's suggestion that the ITC purportedly "determined" that Respondent had "viable" claims against Petitioner (Resp. Br. at 3, 9) is patently untrue.

Respondent was free at all times to pursue whatever remedies the ITC had jurisdiction to award Respondent in that proceeding.[20]

But just as Respondent was free to seek relief in a forum of its choosing (*i.e.*, the ITC), so was Petitioner. Faced with imminent and irreparable harm to its business on the eve of a major housewares industry trade show (JA47-49, Order Granting Preliminary Injunction, JA84), Petitioner filed suit seeking money damages and preliminary and permanent injunctive relief against Respondent on claims arising under 15 U.S.C. § 1125(a), Mass. Gen. L. ch. 93A, §§ 2, 11, and state common law (L1-86). Petitioner's suit in the District Court was completely separate and independent of the then-putative ITC proceeding which Respondent was attempting to foment.[21] The District Court's jurisdiction to hear Petitioner's suit was based on the contents of Petitioner's well-pleaded complaint which was, Respondent concedes, "devoid of a patent infringement claim" (Resp. Br. at 5). Respondent was free to, and did, request that the District Court stay Petitioner's suit and defer to the ITC proceeding, but the District Court, in the exercise of its discretion, declined to do so.

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20. As noted in Petitioner's main brief (Pet. Br. at 3 n.2), the District Court specifically declined to interfere with Respondent's pursuit of the ITC proceeding (JA75, 85). In its Memorandum and Order dated March 8, 2000, granting summary judgment to Petitioner in "this action," the District Court observed that "the ITC must determine in its own right whether the doctrine of collateral estoppel should apply to bar any of the claims [then] pending before it." 93 F. Supp. 2d at 1144 (JA97-98). Nevertheless, Respondent elected not to pursue the ITC proceeding after the District Court awarded summary judgment to Petitioner.

21. The ITC had and has no jurisdiction to award damages or to issue the type of preliminary injunctive relief which Petitioner sought, and was granted, against Respondent in January 2000 (JA84-86).

That Petitioner might have attached no commercial significance to any threatened patent infringement claim by Respondent,[22] or might have wished to ensure Tenth Circuit jurisdiction over its suit for unfair competition and deceptive trade practices, or might have had some other reason for framing its well-pleaded complaint as it did, is simply extraneous to the jurisdictional questions pending before this Court. Under well-settled law, Petitioner was "master to decide what law [it would] rely upon." *The Fair v. Kohler Die & Specialty Co.*, 228 U.S. 22, 25 (1913). Respondent does not cite or distinguish *The Fair* or other decisions of this Court to the same effect, presumably because Respondent cannot do so. Respondent's apparent contention that Petitioner was under some duty to plead a "patent infringement claim" when it commenced this action in December 1999 (Resp. Br. at 5) flies in the face of this Court's precedents.

Equally specious is Respondent's argument that in order to "eliminate forum shopping by declaratory judgment plaintiffs" (Resp. Br. at 8, 20-21), the Federal Circuit must be granted exclusive appellate jurisdiction over any and every type of case commenced in federal court to which a patent law counterclaim is asserted. To begin, it is clear that the Federal Circuit's *current* approach to jurisdiction, in which that court applies "its own" law to "trade dress" and other

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22. Although not germane to the jurisdictional questions pending before the Court, the record shows that on January 19, 2000, Petitioner filed a reply in the District Court which characterized Respondent's counterclaim as frivolous and asserted in bad faith for the purpose of manipulating appellate jurisdiction (L149). Respondent's subsequent failure to pursue its purported counterclaim in any forum, including the ITC, is consistent with Petitioner's allegation. *See also* Powers Decl ¶ 12; Declaration of Francis E. Marino, sworn to December 17, 1999, ¶ 23 ("allegations of patent infringement can be evaluated much more readily, and with much greater confidence, than can allegations of alleged infringement of unregistered 'trade dress' rights in product configurations").

non-patent claims, is a powerful inducement to forum shopping and the stirring up of marginal patent litigation in aid of such shopping.

It was not the well-pleaded complaint rule which prompted this Respondent to attempt to mount a collateral attack on the final judgment in *Vornado I*. It also was not the well-pleaded complaint rule which prompted this Respondent to run away from its "home court" of Wichita, Kansas and to allege in a complaint to the ITC that a 1999 decision of the Federal Circuit supposedly "trumps the Tenth Circuit in *Vornado* [*I*]" (L8, L79). These actions by Respondent were induced by the *existing* jurisdictional approach of the Federal Circuit, which Respondent understandably (if short-sightedly) seeks to perpetuate to suit its litigation preferences in this particular case.

Respondent's argument also overlooks that District Courts have "unique and substantial discretion in deciding whether to declare the rights of litigants." *Wilton v. Seven Falls Co.*, 515 U.S. 277, 286 (1995). This discretion is often used to forestall "forum shopping" in intellectual property cases. *E.g.*, *Kerotest Mfg. Co. v. C-O-Two Fire Equip. Co.*, 342 U.S. 180, 185-86 (1952) (affirming stay of declaratory judgment action in favor of subsequently commenced coercive action); *Serco Serv. Co. v. Kelley Co.*, 51 F.3d 1037, 1039 (Fed. Cir. 1995) (same); *Tempco Elec. Heater Corp. v. Omega Eng'g, Inc.*, 819 F.2d 746, 749-50 (7th Cir. 1987) (same).

The broad discretion which District Courts have "in deciding whether to declare the rights of litigants," *Wilton*, 515 U.S. at 286, exposes the emptiness of Respondent's speculative hypothesis that faithful application of the well-pleaded complaint rule to 28 U.S.C. §§ 1338(a) and 1295(a)(1) would somehow create a specter of "forum shopping by declaratory judgment plaintiffs"

(Resp. Br. at 8). Diverting to the Federal Circuit every antitrust, copyright, "trade dress," or other non-patent case to which a patent counterclaim is asserted, plainly is not a sensible or appropriate means of "eliminat[ing] forum shopping by declaratory judgment plaintiffs" (Resp. Br. at 8), even assuming there were some connection between the well-pleaded complaint rule and Respondent's unfounded speculations in that regard.

A further defect in Respondent's argument is it is unstated assumption that defendants who are sued in federal court will always prefer Federal Circuit to regional circuit jurisdiction in cases brought under antitrust or other non-patent laws, if the defense includes a patent counterclaim. A defendant accused, for example, of imposing unreasonable or per se unlawful restraints on a licensee's use of a patented invention, in alleged violation of federal antitrust law, might well prefer that a regional circuit decide the merits of its defense, even though the defense might include assertion of a counterclaim for patent infringement. But under Respondent's argument, such a defendant cannot have access to regional circuit jurisdiction except by omitting any patent counterclaim from its defense of the plaintiff's suit. And of course, adoption of Respondent's position would confer upon defendants a unilateral power to cut off regional circuit jurisdiction over a plaintiff's non-patent suit (and evade its substantive law), as was attempted below.

At bottom, it is apparent that Respondent's arguments for jettisoning the well-pleaded complaint rule are driven, not by any justification grounded in history, congressional intent, this Court's precedents, or any actual threat to the "uniformity" of federal patent law, but merely to accommodate this particular Respondent's desire, in this particular case, to improve its chances of being permitted to re-litigate a "trade dress" issue it previously litigated and lost, based on a 1999 decision of the Federal Circuit which this Court subsequently overruled.

CONCLUSION

The judgment of the Federal Circuit should be reversed, and the cause remanded to the Tenth Circuit for further proceedings. Alternatively, the Court should affirm the District Court's award of summary judgment to Petitioner.

Respectfully submitted,

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IN THE

SUPREME COURT OF THE UNITED STATES

THE HOLMES GROUP, INC.,
Petitioner,

v.

VORNADO AIR CIRCULATION SYSTEMS, INC.,
Respondent.

ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

BRIEF OF THE PATENT, TRADEMARK & COPYRIGHT SECTION OF THE BAR ASSOCIATION OF THE DISTRICT OF COLUMBIA AS *AMICUS CURIÆ* IN SUPPORT OF THE RESPONDENTS

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Questions Presented

1. Does 28 U.S.C. § 1295(a)(1) divest regional Circuits of jurisdiction to decide appeals of final decisions of district courts in cases wherein the well-pleaded complaint of the prevailing plaintiff does not allege any claim arising under federal patent law?

2. Did the Court of Appeals for the Federal Circuit err in concluding that this action arises under federal patent law for purposes of 28 U.S.C. §§ 1295(a)(1) and 1338(a)?

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ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

BRIEF OF THE PATENT, TRADEMARK & COPYRIGHT SECTION OF THE BAR ASSOCIATION OF THE DISTRICT OF COLUMBIA AS *AMICUS CURIÆ* IN SUPPORT OF THE RESPONDENTS

The Interest Of Amicus Curiæ[1]

The Bar Association of the District of Columbia ("BADC") is a non-profit organization with voluntary membership. Membership is not restricted to any segment of

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[1] This brief *amicus curiæ* is presented by the Bar Association of the District of Columbia under Rule 37.3 of this Court. No counsel for a party authored any part of this brief. Only *amicus curiæ* made a monetary contribution to the preparation and submission of this brief; counsel for *amicus curiæ* prepared this brief on a pro bono basis.

the profession and, thus, the members and their clients represent widely diverging interests and views. Members include attorneys in private practice as well as those employed by corporations and those in government.

The Patent, Trademark & Copyright Section of the BADC includes members of the bar regularly practicing in and interested in patent law. Members frequently represent patent applicants, patent owners, and accused patent infringers in various matters, including those before the United States Court of Appeals for the Federal Circuit ("the Federal Circuit"). Members are thus concerned with the procedure for obtaining Federal Circuit appellate review of cases involving patent law claims.

The BADC has no stake in either of the parties or the result of this case, other than an interest in seeking correct and consistent interpretation of intellectual property law. Both the Petitioner and the Respondent have consented to the BADC filing this brief.

Statement Of The Case

This case involves the question of whether (1) the Federal Circuit or (2) the regional circuit—*i.e.*, the Tenth Circuit—has appellate jurisdiction over an action in which the plaintiff's complaint does not plead any claim for relief arising under patent law, but the defendant files a counterclaim that includes a claim of patent infringement.

The complaint filed by the Petitioner, the Holmes Group, Inc. ("the Holmes Group"), includes a request for declaratory judgment that its products did not violate any trade dress of the Respondent, Vornado Air Circulation Systems, Inc. ("Vornado"). Vornado filed an answer and a counterclaim that the products at issue infringed Vornado's

patent. The district court entered a Rule 54(b) judgment on the trade dress issue in favor of the Holmes Group.

Vornado appealed that judgment to the Federal Circuit, asserting that the Federal Circuit had appellate jurisdiction under 28 U.S.C. § 1295(a)(1) based on the patent infringement claim in its counterclaim. The Federal Circuit accepted jurisdiction, vacated the judgment and remanded the case to the district court.

The Holmes Group filed a petition for certiorari seeking review by this Court whether the Federal Circuit had proper appellate jurisdiction to review the district court's judgment where the "well-pleaded" complaint itself did not include any claim for relief within the Federal Circuit's appellate jurisdiction.

Summary Of The Argument

Under the well-pleaded complaint rule, jurisdiction over an action is determined from the claims for relief raised in the pleadings, and not from the form of the specific pleadings themselves. Therefore, a claim for relief raised in a counterclaim should be considered when determining appellate jurisdiction. This is consistent with this Court's well-pleaded complaint jurisprudence. Prior decisions of this Court refer to the face of the plaintiff's complaint because, in each of those cases, the complaint was the only pleading that raised affirmative causes of action. But this Court has never held that jurisdiction cannot be based on a claim for relief contained in a counterclaim.

In this case, there is no dispute that a claim for relief raised in Vornado's counterclaim—i.e., a claim of patent infringement—falls squarely within the Federal Circuit's appellate jurisdiction. Therefore, the Federal Circuit has appellate jurisdiction over the entire action—including the

non-patent issues—just as it does in actions where a patent infringement claim is raised in the original complaint along with other non-patent issues.

Even if this Court determines that a claim for relief raised in a counterclaim should not be considered when determining appellate jurisdiction in *all* cases, this Court should make an exception for cases, such as this, where a claim for relief in the counterclaim arises under patent law and otherwise would be subject to review by the Federal Circuit. Congress took the extraordinary measure of creating the Federal Circuit with exclusive appellate jurisdiction over patent cases—even those that include non-patent claims—in order to ensure uniform application of patent laws so that patent rights would be stronger and more predictable. Thus, Congress has determined that the national interest in having the Federal Circuit review all actions that include patent claims substantially outweighs a particular litigant's or regional circuit's interests in having the regional circuit review a particular action, even if that action includes non-patent claims. Thus, both Congressional policy and judicial economy support Federal Circuit jurisdiction over an entire action if a claim for relief arising under patent law is raised in any pleading, whether in the complaint or a counterclaim.

Argument

I. A Claim For Relief Pled in a Counterclaim Should Be Considered When Determining Appellate Jurisdiction Under The Well-Pleaded Complaint Rule.

A. The well-pleaded complaint rule focuses on claims for relief and not the form of the pleadings *per se*.

The well-pleaded complaint rule is typically used to determine whether federal question jurisdiction exists over an action under 28 U.S.C. § 1331 based on the action "arising under the Constitution, laws, or treaties of the United States." In *Christianson*,[2] this Court referred to this § 1331 "arising under" jurisprudence to guide its decision on Federal Circuit jurisdiction based on 28 U.S.C. § 1338(a) for actions "arising under any Act of Congress relating to patents."[3] In *Christianson*, the plaintiff brought antitrust and state law claims against the defendant, who responded with a patent law defense.[4] This Court ultimately ruled that the Federal Circuit did not have appellate jurisdiction over the action under the well-pleaded complaint rule, because the patent law question was not one of the well-pleaded claims.[5]

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[2] *Christianson v. Colt Indus. Operating Corp.*, 486 U.S. 800, 809 n.2 (1988).

[3] *Christianson*, 486 U.S. at 809 n.2.

[4] *Id.* at 805.

[5] *Id.* at 809.

The *Christianson* Court focused its jurisdictional inquiry on the claims of relief sought in the action. For example, the Court distinguished (1) the affirmative claims for relief, upon which jurisdiction may be based, and (2) mere defenses to those claims, upon which jurisdiction would not be based.[6] The Court also distinguished between claims for relief and the underlying theories that support the claims, stating that "[t]he well-pleaded complaint rule . . . focuses on claims, not theories."[7] The Court's inquiry looked beyond the actual wording of the pleading itself, stating that "a plaintiff may not defeat § 1338(a) jurisdiction by omitting to plead necessary patent-law questions."[8] In his concurrence, Justice Stevens also acknowledged that the well-pleaded complaint rule separates claims from issues and does so without limitation to the original complaint.[9]

In sum, the principal focus of the jurisdictional inquiry is on the claim for relief that the court is being asked to grant in order to determine whether that court properly has authority to grant it.

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[6] *Id.* at 808-809.

[7] *Id.* at 811.

[8] *Id.* at 809 n.3.

[9] *Id.* at 820 (J. Stevens, concurring).

B. A claim for relief in a counterclaim should be considered when determining jurisdiction.

A counterclaim asserts affirmative claims for relief,[10] and should be considered when determining whether a court has authority to grant the relief requested in the action. This Court has not decided whether claims for relief in a counterclaim should be considered in determining jurisdiction under either § 1331 "arising under" federal question actions in the regional circuits or § 1338 "arising under" patent actions in the Federal Circuit. But the Federal Circuit and several regional circuits have considered this issue and ruled that claims for relief in counterclaims should be considered when determining jurisdiction under the well-pleaded complaint rule.

In *Aerojet-General*,[11] the Federal Circuit ruled that a claim for relief of patent infringement in a counterclaim was a proper basis for § 1338 "arising under" jurisdiction. The Federal Circuit looked beyond the labels of "complaint" and "counterclaim" in determining what claims for relief were involved in the action, stating:

> [i]t would seem at best incongruous to hold that we have appellate jurisdiction when a well-pleaded patent infringement claim is the basis of the pleading labeled "complaint" but not when the *identical* well-pleaded claim is

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[10] Fed. R. Civ. P. 13(a).

[11] *Aerojet-General Corp v. Machine Tool Works, Oerlikon-Buehrle Ltd.*, 895 F.2d 736, 742 (Fed. Cir. 1990).

the basis of a pleading labeled "counterclaim."[12]

At least two other circuits also have acknowledged the Federal Circuit's authority to base its jurisdiction on questions of patent law raised in a counterclaim.[13] And other circuits have relied on a counterclaim to support their own § 1331 "arising under" jurisdiction when the counterclaim presents an independent basis for jurisdiction.[14]

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[12] *Id.*

[13] *See Xeta Inc. v. Atex Inc.*, 825 F.2d 604, 607 (1st Cir. 1987), *transferred to*, 852 F.2d 1280 (Fed. Cir. 1988) (nonfrivolous patent counterclaim supports transfer of appellate jurisdiction to the Federal Circuit); *U.S. Valves Inc. v. Dray*, 190 F.3d 811, 813 n.6 (7th Cir. 1999) (the court's determination that the case arises under patent law "does not change when the possible basis for Federal Circuit jurisdiction resides in a counterclaim").

[14] *See Rengo Co. v. Molins Mach. Co.*, 657 F.2d 535, 539 (3rd Cir.), *cert. denied*, 454 U.S. 1055 (1981) (counterclaim supported federal jurisdiction despite jurisdictional defect in complaint); *Pioche Mines Consol., Inc. v. Fidelity-Philadelphia Trust Co.*, 206 F.2d 336, 336-37 (9th Cir.), *cert. denied*, 346 U.S. 899 (1953) (counterclaim supported federal jurisdiction despite court's dismissal of complaint); *Isenberg v. Biddle*, 125 F.2d 741, 743 (D.C. Cir. 1941) (counterclaim with independent jurisdictional basis "is sustainable without regard to ... the original complaint").

A few circuits have concluded that a counterclaim cannot be the basis for arising under jurisdiction.[15] But those conclusions erroneously relied on case law distinguishing claims and defenses without distinguishing claims in complaints and counterclaims. For example, the Fourth Circuit in *Cook* relied on this Court's opinion in *Gully v. First National Bank in Meridian*[16] to reject federal jurisdiction over the defendant's counterclaim,[17] but the *Gully* Court denied removal jurisdiction based on a *defense* and made no mention of a counterclaim.[18] Similarly, the Fifth Circuit's decision in *Walker* relied on *Rivet v. Regions Bank of Louisiana*[19] for the premise that "[t]here has never been a suggestion that a defendant could, by asserting an artful counterclaim, render a case removable in violation of

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[15] *See Cook v. Georgetown Steel Corp.*, 770 F.2d 1272, 1275 (4th Cir. 1985); *Texas v. Walker*, 142 F.3d 813, 816 n.2 (5th Cir. 1998); *Shannon v. Shannon*, 965 F.2d 542, 545-46 (7th Cir. 1992); *Takeda v. Northwestern Mut. Life Ins. Co.*, 765 F.2d 815, 822 (9th Cir. 1985).

[16] 299 U.S. 109 (1936).

[17] *Cook*, 770 F.2d at 1275, citing *Gully*, 299 U.S. at 112.

[18] *See Gully*, 299 U.S. at 116-17. The Ninth Circuit's decision in *Takeda* also relied on its prior and erroneous interpretations of *Gully* and its progeny in concluding that "removability cannot be created by defendant pleading a counter-claim presenting a federal question." *Takeda*, 765 F.2d at 822, citing *Rath Packing Co. v. Becker*, 530 F.2d 1295, 1303 (9th Cir. 1975), *aff'd sub nom. Jones v. Rath Packing Co.*, 430 U.S. 519 (1977).

[19] 522 U.S. 470 (1998).

the well-pleaded complaint rule."[20] But the *Rivet* Court held only that the *defense* of federal-law claim preclusion does not support removal jurisdiction, and makes no mention of counterclaims.[21] And the Seventh Circuit's decision in *Shannon* relied on both *Takeda* and *Louisville & Nashville R. Co. v. Mottley*[22] for the premise that "a defense based on the United States Constitution or federal law does not make the suit removable, and neither does a counterclaim or other similar filing based on federal law."[23] But *Takeda* draws an erroneous inference regarding counterclaims from *Gully*, which did not consider counterclaims, and *Mottley* held only that an anticipated federal law defense did not transform a state-law complaint into a case arising under the United States Constitution.[24] Thus, in each instance where a regional circuit did not consider the counterclaim in determining jurisdiction, the circuit court narrowly interpreted the well-pleaded complaint rule to exclude counterclaims based on an overbroad and erroneous application of this Court's precedents.

Those narrow interpretations rely on the links this Court has historically made between the well-pleaded

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[20] *Walker*, 142 F.3d at 816, n.2.

[21] *Rivet*, 522 U.S. at 478.

[22] *Louisville & Nashville R. Co. v. Mottley*, 211 U.S. 149 (1961).

[23] *Shannon*, 965 F.2d at 545-46.

[24] *Mottley*, 211 U.S. at 153.

complaint rule and the formal complaint of the plaintiff.[25] As noted above, however, such links merely reflect the fact that those specific cases involved well-pleaded claims that appeared only in the plaintiff's complaint. This Court has not specifically interpreted the well-pleaded complaint rule to exclude well-pleaded claims in counterclaims from supplying the basis for "arising under" jurisdiction. Indeed, this Court has recognized that a counterclaim might provide an independent basis for jurisdiction under the correct circumstances.[26] In *Franchise Tax Board*, this Court considered whether a defendant's motion to dismiss the complaint might be treated as a counterclaim for a declaratory judgment "which might then provide an independent basis for reaching the merits of the ... case."[27]

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[25] *Franchise Tax Board v. Construction Laborers Vacation Trust*, 463 U.S. 1, 9 (1983) ("a defendant may not remove a case to federal court unless the *plaintiff's* complaint establishes that the case 'arises under' federal law"); *Rivet*, 522 U.S. at 474, citing *Caterpillar Inc. v. Williams*, 482 U.S. 386, 392 (1987) ("federal jurisdiction exists only when a federal question is presented on the face of the plaintiff's properly pleaded complaint"); *Gully*, 299 U.S. at 111 ("To bring a case within the statute, a right or immunity created by the Constitution or laws of the United States must be an element, and an essential one, of the plaintiff's cause of action"); *Christianson*, 486 U.S. at 809 ("jurisdiction ... extends over 'only those cases in which a well-pleaded complaint establishes either that federal law creates the cause of action or that the plaintiff's right to relief necessarily depends on resolution of a substantial question of federal law'").

[26] *Franchise Tax Board*, 463 U.S. at 22 n.24.

The Court ultimately did not reach that issue for other procedural reasons.[28]

II. Even if counterclaims are not typically considered under the well-pleaded complaint rule, they should be in determining Federal Circuit jurisdiction over patent claims.

Even if the well-pleaded complaint rule typically does not permit consideration of claims for relief pled in a counterclaim, this Court should make an exception for Federal Circuit jurisdiction over claims arising under patent law.

Congress created the Federal Circuit in the Federal Courts Improvement Act of 1982 based on the substantial need for uniform judicial development of federal patent law.[29] Congress determined that a centralized national court with exclusive appellate jurisdiction over patent-related cases was necessary "for ensuring a more uniform interpretation of the patent laws an thus contributing meaningfully and

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[27] *Id.*

[28] *Id.* (The defendant did not file an answer or a counterclaim, but allowed the district court to treat its motion to dismiss as a cross-motion for summary judgment. Therefore, this Court declined to construe the defendant's pleadings as a counterclaim.).

[29] Federal Courts Improvement Act, Pub. L. No. 97-164, 96 Stat. 25 (1982) (merging the Court of Customs and Patent Appeals with the United States Court of Claims to create the United States Court of Appeals for the Federal Circuit).

positively to predicting the strength of patents."[30] Thus, Congress specifically created the Federal Circuit to provide "a forum that will increase the doctrinal stability in the field of patent law," stating:

> [T]he Hruska Commission singled out patent law as an area in which the application of the law to the facts of a case often produces different outcomes in different courtrooms in substantially similar cases. Furthermore, ... the patent bar indicated that uncertainty created by the lack of national law precedent was a significant problem. ... The creation of ... the Federal Circuit will produce desirable uniformity in this area of the law.[31]

Congress had a specific, express and national purpose when it created the Federal Circuit and granted it exclusive appellate jurisdiction over any action raising claims under the patent laws of the United States, even if the action includes other non-patent claims for relief.[32] Thus, Congress has determined that the national interest in having the Federal Circuit review all claims for relief arising under patent law outweighs any interest a particular litigant or regional circuit may have in having the regional circuit review even the non-

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[30] *Hearings on H.R. 6033, H.R. 6934, H.R. 3806 and H.R. 2414, Before the Subcomm. On Courts, Civil Liberties and the Admin. Of Justice of the House Comm. On the Judiciary*, 96th Cong., 2d Sess. 797 (1980).

[31] S. Rep. No. 97-275 (1982), *reprinted in* 1982 U.S.C.A.N.N. 15.

[32] *See* 28 U.S.C. §§ 1295(a)(1), 1338

patent issues raised in an action that includes patent claims. Thus, any ruling by this Court regarding the Federal Circuit's jurisdiction should give weight and deference to Congress' determination on this issue, as the Federal Circuit recognized in *Aerojet-General*:

> distinctions between complaints and counterclaims can be important in other contexts, but can have no meaningful role in governing the direction of the appeal under the unique statute that created this court when the counterclaim arises under the patent laws.[33]

In sum, if the Court concludes that claims for relief pled in a counterclaim generally are not considered in determining jurisdiction under the well-pleaded complaint rule, the Court should at least make an exception to such a rule where, as here, the counterclaim includes a claim for relief arising under the patent law, which should be reviewed by the Federal Circuit.

[33] *Aerojet* 895 F.2d at 742.

III. Conclusion

Amicus curiæ respectfully requests this Court to rule that the Federal Circuit has appellate jurisdiction over an action under 28 U.S.C. § 1331(a) and § 1295(a)(1) if a claim for relief arising under the patent law is pled in a counterclaim.

Respectfully submitted,

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